1972

The Marshall Plan: a policy against hunger, poverty, desperation and chaos.

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THE MARSHALL PLAN:

A POLICY AGAINST HUNGER, POVERTY,

DESPERATION AND CHAOS

BY

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Bachelor of Arts

Rollins College, 1960

A Thesis Submitted to the School of Government and Business Administration of The George Washington University in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

April, 1972

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INTRODUCTION

Statement of Introduction

One needs but the briefest of introductions to the Marshall Plan to quickly realize that it ranks with the most consequential instruments of its time. That the situation in western Europe in the dark days which followed World War II was grim, is well documented; that the assistance tendered by the United States to the countries of western Europe was generous, is well acknowledged; and that western Europe by the mid 1950's had, by and large, more than regained its economic health, is undeniable.

It is in trying to establish a cause and effect relationship between these facts that the student runs into trouble. It is tempting to assign the label of "cause-effect" to the relationship of assistance-recovery; to arbitrarily do so, however, is to lose objectivity.

Few would dispute that the great and steady strides by western Europe were made possible by the laying of a tremendous foundation in the early post-war years. The United States participated in the structuring of this foundation but the role played by the recipients of the assistance can not be overstated. It is the relative extent to which the United States and western Europe participated in the creation of this all-important foundation which remains the salient question. In short, while the facts are clear, their relationships are less so.

Statement of Research Question

Drawn by the desire to establish a cause-effect relationship between the implementation of the Marshall Plan on the one hand, and the recovery of western Europe on the other, we are inexorably led to ask: How did the Marshall Plan contribute to the economic recovery of western Europe? Put somewhat more dramatically and perhaps emotionally, I must admit, the question might be rephrased: Would there have been economic chaos in western Europe if the United States had not, when it did, stepped in with the economic assistance which came to be known as the Marshall Plan?

To the end of answering the foregoing primary question I feel it is necessary to examine several subsidiary points and to ask certain questions about them. First of all, since we are trying to determine if a cause-effect relationship exists it is absolutely essential that we analyze the economic posture of western Europe during the days following World War II. Specifically, what were the economic conditions in western Europe at the close of World War II? Some felt that the situation, while poor, was certainly not critical. Others, among them Secretary of State George C. Marshall, felt that:

> We were faced with immediate issues which vitally concerned the impoverished and suffering people of Europe who are crying for help, for coal, for food, and for most of the necessities of life.[1]

Next, it is of signal importance that we ask: How did the Marshall Plan unfold and function to accomplish its mission? An analysis of the birth, first steps and maturity of the Marshall Plan will be of great assistance in examining its impact on western Europe.

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[1]George C. Marshall, Department of State Bulletin, Vol. XVI, May 11,1947 (Washington: Government Printing Office, 1947), p. 920.

It is imperative that we re-examine the western European countries as of June 30, 1952 (officially the last day of the Marshall Plan) to determine what definitive progress was made in the areas of industrial and agricultural production. More specifically, did economic activity regain its pre-war levels or better? If a cause-effect relationship is to emerge and withstand the scrutiny of examination then we must look at the "before" and "after" as a prerequisite to further analysis. Included in the "after" evaluation is a look at the subject of European economic cooperation. Namely, what seeds of economic cooperation were planted among the participating countries by the implementation of the Marshall Plan? Were the Organization for European Economic Cooperation and other such vehicles temporary mechanisms established to solve transient problems or did they represent the genesis of true economic cooperation?

The answers to these subsidiary questions will make possible an intelligent response to the broader primary question.

Scope of Study

The Marshall Plan was not purely an "economic animal." It also had its humanitarian aspects, its political facets, its diplomatic overtones, and even its military implications--all in addition to the more obvious mainstream of economic purpose. The scope of this paper is limited to the economic ramifications of the Marshall Plan. This is not to say that the other factors were not of great importance. They were, and at key times in the years since World War II may have had a greater bearing on the outcome of history than the purely economic factors. However, the economic factors have always been and will continue to be the foundation upon which the other aspects necessarily rest. Other factors can be and are of significance to be sure, but if they are to be of any lasting importance they must be

supported by economic reality. By looking at the economic aspects of the Marshall Plan, in other words, we see not only the industrial and agricultural posture of western Europe, but the backdrop of the entire drama of the humanitarian, political, diplomatic and military worlds as well.

Purpose of Study

The purpose of this study is twofold: First, from a pragmatic point of view, an analysis of the Marshall Plan serves to provide a valuable perspective into such on-going programs as the Alliance for Progress. While the differences between the two are admittedly numerous and obvious, the similarities are nonetheless many and certainly worthy of examination. A score of years since the end of the Marshall Plan provides a comfortable vantage point from which to peruse underlying concepts. In turn, these models may be of considerable assistance in analyzing the implementation of today's foreign aid program.

Secondly, taken from a more academic point of view, a study of the Marshall Plan gives considerable food for thought for concepts of a highly stimulating nature. The idea, for example, that man makes his great strides forward by "social inventions"[1] prompts one to place the Marshall Plan on the list with the most noble of man's accomplishments. Yet academic objectivity and skepticism demand that we ask: Were the motives of the United States truly altruistic or were they self-serving? Academic inquisitiveness further prompts the student to ask: Would there be a western Europe as we know it today if the Marshall Plan had not been implemented? Would western Europe, instead of Korea, have been the scene of Communism's

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[1]Harvey S. Perloff, Alliance for Progress: A Social Invention in the Making (Baltimore: The Johns Hopkins Press, 1969), p. xiii.

attack of June 25, 1950, if economic life had not been breathed into the bodies of the respective countries? While admittedly "what if" in nature, these questions nonetheless probe at the very heart of the Marshall Plan and warrant serious reflection.

Methodology

Standard research methods were employed. The libraries of the Department of State and of the Agency for International Development were valuable sources of information. Interviews with A.I.D. personnel who had been with the program since its inception, proved to be of great assistance not only to get a flavor for the atmosphere within the agency in its early years (then known as the Economic Cooperation Administration) but also to serve as a sounding board for primary and secondary research questions. The gentlemen interviewed were considerate, helpful and above all enthusiastic in reminiscing about events which had taken place over 20 years before.

In response to my letter, Mr. Paul G. Hoffman (now over 80 years old and considered by many to be one of the most dedicated public servants of this century) first administrator of the Economic Cooperation Administration, wrote back with a great deal of invaluable first-hand information--the type impossible to find in the stacks of even the best library. His encouragement was heartening to say the least.

Organization of Study

The study and thesis is organized as follows: In Chapter II, the economic situation which existed in the aftermath of World War II is described. Levels of industrial and agricultural production as well as the

general health and pulse of the aggregate economy of western Europe are stressed.

In Chapter III, the sentiment and rhetoric which surrounded the unfolding of the European Recovery Program are dealt with.

In Chapter IV, is described the machinery which was set up to administer the Marshall Plan, that is the Economic Cooperation Administration, and how it was established. Chapter IV deals with the 51-month period which marked the life of the Marshall Plan. Somewhat arbitrarily this section of the chapter is divided into an analysis of major developments by fiscal year. As explained in more detail in that particular chapter, the breakdown by fiscal years is not so much discretionary as useful. Program emphasis, not to mention funding levels, varied by fiscal year and for this reason alone it serves as a handy division. This chapter strives to provide a year-by-year analysis of the recovery effort.

Chapter V deals with an assessment and evaluation of the Marshall Plan taken as a whole, looking at the progress made, the crisis averted, the problems conquered and the footholds towards permanent cooperation secured.

Finally, Chapter VI serves as the Summary and Conclusion.

CHAPTER II

THE AFTERMATH OF WORLD WAR II

Introduction

The economic conditions of western Europe in the days following World War II might best be described by paraphrasing the opening lines from Charles Dickens' A Tale of Two Cities: "It was the best of times, it was the worst of times." Underlying the sheer joy which marked the end of the war and beneath the understandably optimistic hopes for peace, there was, it is sad to say, a much harsher reality to face.

The Best and Worst of Times

> May is a beautiful month in Europe and to millions of war-wracked Europeans, none could compare with the May of 1945. As the bells rang in another peace, eyes went up to a cloudless sky, fearlessly and unsearchingly for the first time in almost six years. In countless cities, trucks unloaded their often pathetic freight of pale and emaciated men returning to the arms of their families after years of involuntary servitude or worse. Every manner of rolling stock was winding through the countryside, bedecked with flags and flowers, crowded with returning internees. The ruins were still there, communications and industry still paralyzed, but even in defeated Germany the bottom had been reached. The terrifying worst was over; henceforth there was only one way for Europe to travel--upward.[1]

In Sir Winston Churchill's own words:

> The Hitler Peril, with its ordeals and privations, seemed to most of them /the cheering crowds in London/ to have vanished in a blaze of glory. The tremendous foe they had fought for more than five years had

[1]Hans A. Schmitt, The Path to European Union (Baton Rouge, Louisiana: Louisiana State University Press, 1962), p. 17.

surrendered unconditionally. All that remained for the three victorious Powers was to make a just and durable peace, guarded by a World Instrument, to bring the soldiers home to their longing loved ones, and to enter upon a Golden Age of prosperity and progress.[1]

The misconception that everything would be all right in no time at all was, initially at least, quite widespread. It did not take long, however, for harsh reality to be asserted. We see this metamorphosis of thought so well described by Will Clayton, former Under Secretary of State:

> At first the recovery went even faster than after World War I. But then things started going wrong. A severe winter was followed by floods and 1947 it was plainly evident that . . . Europe was too depleted to provide the capital resources for the long-range reconstruction.[2]

Several authors have used an analogy which, although not fully accurate, is certainly highly descriptive. They have likened western Europe to a seriously injured man, who after the accident runs about helping here and there and then finally realizes that he too is seriously hurt and falls into shock. Harry B. Price in an interview with former Secretary of State Dean Acheson quoted the Secretary as saying:

> The whole matter begins with the misconception which everybody had regarding the nature and depth of the problem after the Second World War. No one had a picture of the completeness of the destruction that had occurred . . . . We had operated on a theory of dealing with hunger, disease, and unrest until one or two good crops could come in. But the problems were more far-reaching, and it grew upon us towards the end of 1946 that we were heading for very bad troubles.[3]

A Crushed Economic Mechanism

The war had very literally almost completely crushed the economic

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[1]Winston Churchill, Triumph and Tragedy, Vol. VI (Boston: Houghton Mifflin, 1953) p. 569.

[2]Schmitt, The Path to European Union, p. 18.

[3]Harry B. Price, The Marshall Plan and Its Meaning (Ithica, New York: Cornell University Press, 1955), p. 9.

mechanism by which the western European countries made their livings individually and collectively. That this finally became plainly evident to our government is to be seen in these words of the Secretary of State:

> It was the war which destroyed coal mines and deprived the workshop of sufficient mechanical energy. It was the war which destroyed steel mills and thus cut down the workshop's material for fabrication. It was the war which destroyed transportation lines and equipment and thus made the ability to move goods and people inadequate. It was the war which destroyed merchant fleets and thus cut off accustomed income from carrying the world's goods. It was the war which destroyed or caused the loss of so much of foreign investment and income which it has produced. It was the war which bled inventories and working capital out of existence. It was the war which shattered business relationships and markets and the sources of raw materials. The war disrupted the flow of vital raw materials from Southeast Asia, thereby breaking the pattern of multilateral trade which formerly provided, directly or indirectly, large dollar earnings for western Europe . . . . This is the essence of the economic problem of Europe.[1]

Expressed quantitatively the picture took on added meaning. What the words "crushed" and "destroyed" might not have conveyed, the following statistics did so, rudely:

> Industrial production in Belgium, France, and The Netherlands was reduced to between 30 and 40 percent of pre-war, in Italy to 20 percent. Production of bread grains fell to two-thirds of pre-war.[2]

The table on the following page gives an excellent idea of how the level of production of selected industrial and agricultural commodities compared in the first quarter of calendar year 1948 to the levels of production which had existed in 1938. All of the figures are in relation to an index in which 1938 production has been set equal to 100. It is readily apparent that with the single exception of electric power (which had, by early 1948, already rebounded to above pre-war levels) the other commodities were significantly below their 1938 levels.

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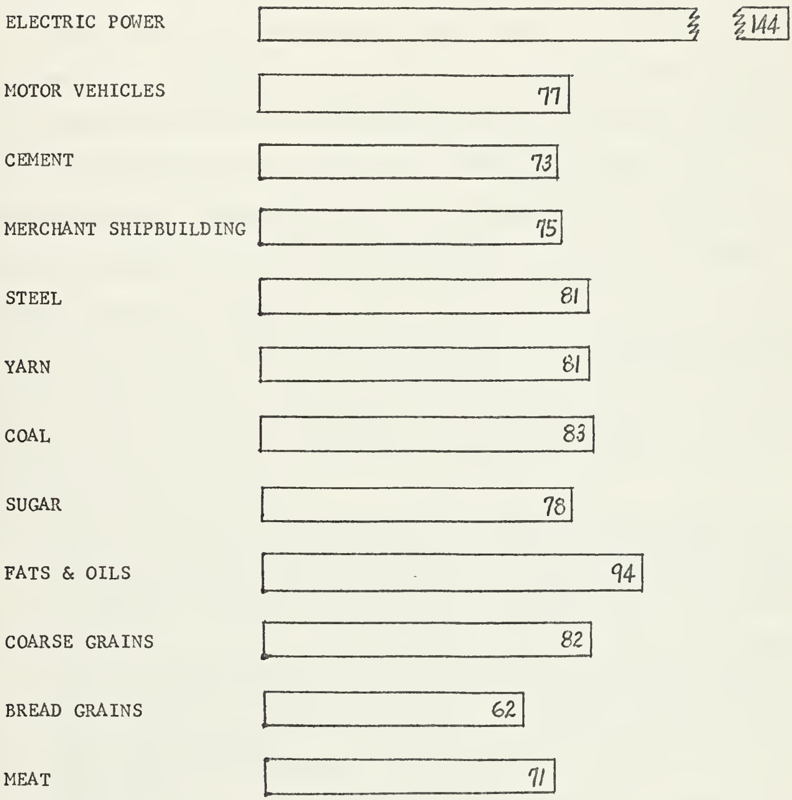
[1]George C. Marshall, Assistance to European Economic Recovery, Department of State Publication #3022 (Washington, D.C.: Government Printing Office, 1948), pp. 2-3.

[2]Robert C. Hartnett, and Tibor Payzs, The Marshall Plan: America's Interest in European Recovery (New York: America Press, 1948), p. 5.

TABLE I

PRODUCTION OF SELECTED INDUSTRIAL
AND AGRICULTURAL COMMODITIES
AS OF FIRST QUARTER
CALENDAR YEAR 1948

(Index: 1938 = 100)



Source: Organization for European Economic
Cooperation, various reports.

> Of all the materials shortages by far the most serious is coal. There is no country in western Europe where the coal supply does not, in some measure, limit industrial output. In France, Italy and the Low Countries it is the controlling bottleneck . . . . Europe's requirements could be met from the Ruhr. . . . however, labor is scarce, miner's rations in the past have been inadequate and their families ill-fed, recruiting is handicapped by the shortage of housing and the appalling condition of the Ruhr cities. Absentee rates are as high as 30%, steel and machinery for rehabilitation and maintenance are scarce, and the occupation management has been uncertain, ineffective, and on the whole, incompetent.[1]

Summers goes on to mention that before the war, the primary sources of coal had been (in addition to the Ruhr) Wales and German/Polish Silesia. However because of decreased coal production coupled with higher consumption within the United Kingdom, no British coal remained for export. The Silesian production, although potentially the largest in all of Europe, because of the separation of East and West which occurred after the war became very simply unavailable.[2]

In more general and broad terms the representatives of the sixteen western European countries, which were ultimately to join hands for purposes of economic recovery, summed up the cause of their difficulties and their major shortcomings as follows:

1. Physical devastation and disruption in western Europe and in the principal food and timber producing zones of eastern Europe, together with the dislocation of the European transit system have caused a temporary paralysis of production in western Europe, including Germany.
2. Prolonged interruption of international trade occurred simultaneously with the loss of income from merchant fleets and foreign investment, and led to the exhaustion or diminution of dollar funds in the sixteen countries at a moment when many vital needs could be met only from dollar sources.
3. Human strain and exhaustion resulted from six years of war and enemy occupation.
4. Internal financial disequilibrium was the inevitable result of a

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[1] Robert E. Summers, Economic Aid to Europe: The Marshall Plan (New York: The H. W. Wilson Company, 1948) pp. 16-17.

[2] *Ibid.*, pp. 16-18.

long war.

5. In Southeast Asia there was a shortage in the supply of food and raw materials which were vital to the European economy both for direct consumption and as earners of dollars.
6. There was an abnormal increase of population in certain areas resulting from the wartime displacement of peoples.[1]

Ideological Struggle

As if the foregoing economic problems were not enough it quickly became apparent that western Europe would have to contend with yet another "attack" because: "The near collapse of Europe has left weakness where once there was strength and has created in effect a political and economic vacuum."[2] That this sentiment was shared by the top echelons of our administration was made quite clear when the President stated:

> The economic plight in which Europe now finds itself has intensified a political struggle between those who wish to remain free men living under the rule of law and those who would use economic distress as a pretext for the establishment of a totalitarian state.[3]

And so we see another dimension, one every bit as deep and critical as the economic one, coming into focus. As the two relate one to the other, Secretary of State Marshall said: "This problem /the economic problem/ would exist even though it were not complicated by the ideological struggles in Europe between those who want to live as free men and those small groups who aspire to dominate by the method of police state."[4]

That the end of World War II should have posed a relatively unique

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[1]New York Times, September 24, 1947, p. 25.

[2]George C. Marshall, The Problems of European Revival and German and Austrian Peace Settlements, Department of State Publication #2990 (Washington, D. C.: Government Printing Office, 1947), p. 5.

[3]Harry S. Truman, A Program for United States Aid to European Recovery, Department of State Publication #3022 (Washington, D. C.: Government Printing Office, no date), p. 10.

[4]Marshall, Assistance to European Economic Recovery, p. 3.

power situation in which for once, not one but two major powers were to emerge victorious, was not so much unforseen as it was not recognized as posing a problem. It was only when the initial post-war meetings and conferences with the Russians produced little more than irritation and misunderstandings that the concept of a "cold war" was recognized. The situation was to prompt the truism that "although the war had ended, the peace had not yet come."

"Far from cooperating, the Soviet Union and the Communist parties have proclaimed their determined opposition to a plan for European economic recovery."[1] In hindsight we can see that the seeds of "dis-cooperation" had been planted by the Soviet Union long before the need for anything resembling the Marshall Plan was ever felt. In an observation all the more remarkable because it was written in 1948 without the comfortable and clarifying buffer of time to provide perspective, Hartnett and Payzs quite accurately tell us that Russia:

> . . . violated the Yalta Agreement of February, 1945, almost before the ink was dry by installing a Communist-dominated government in Poland . . . . Then, towards the end of 1946, guerilla troops armed in Yugoslavia and aided and abetted by Bulgaria and Albania, began to harass the northern borders of Greece.[2]

In summing up the progress (or perhaps it would be more accurate to say lack of progress) made at the Moscow meeting of the Council of Foreign Ministers (March 10-April 24, 1947), Secretary of State George C. Marshall had already begun at this point to see the proverbial handwriting on the wall when, upon his return from Moscow, he said:

> In a statement such as this it is not practicable to discuss the numerous issues which continued in disagreement at the Conference. It will

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[1]*Ibid*., p. 3.

[2]Hartnett and Payzs, *The Marshall Plan*, p. 7.

suffice, I think, to call attention to the fundamental problems whose solution would probably lead to the quick adjustment of many other differences.[1]

In that statement to the people of the United States the Secretary of State went on to mention the key unresolved problems of the Moscow Meeting. As concerns the limits of power to be imposed upon the new central German government, the Russians took the position of the necessity and desirableness of having a strong central government; the United States, England and France, on the other hand were in favor of a less strong and less centralized German government.

On the subject of the German economy, while the United States, England and France wanted a German economy fully and completely integrated with those of the other western European countries (as had been agreed to at Potsdam), the Soviets did not want to cooperate in establishing any such balanced and integrated German economy.

The subject of reparations brought only completely dichotomized opinions. In short, the Russians demanded major reparations including not only the removing of virtually all German production capability but indeed a "claim" against future production. The United States, England and France, while mindful that technically at least "to the victor belongs the spoils", felt that if Germany was ever to play a constructive and viable role and take its proper place in the western European community, that reparations should be of a limited nature (One might almost be tempted to use the word "token" although the final amount decided on was certainly more than "token").

Other major points of disagreement must be touched upon to get some

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[1]George C. Marshall, an address by the Secretary of State on April 28, 1947 upon his return from the Moscow Meeting of the Council of Foreign Ministers (March 10-April 24, 1947), Department of State Publication #2822, (Washington D. C.: Government Printing Office, 1947), p. 2.

feel for both the depth and breadth of the gap which existed between East and West. The subject of boundaries was one on which there was almost total disagreement. Under the proposal set forth by the Soviets, part of Germany would have been lost to Poland (which in turn had lost much of its eastern real estate to the USSR) in a boundary shift westward.

The subject of a settlement treaty became another area in which the United States, England, and France cound not come to agreement with the Russians. The former countries felt that all of the states which had been at war with Germany should have some voice in the final settlement; the U.S.S.R., on the other hand, felt that the matter was one which concerned only the "Big Four."

A final major point of disagreement concerned Austria. The Soviets wanted full reparations from Austria as well as the ceding of Carenthia to Yugoslavia. The United States, England and France, as might be expected, were opposed to this position.

It is easy to see what prompted Secretary Marshall to conclude: "Agreement was made impossible at Moscow . . . /because/. . . propaganda appeals to passion and prejudice /by the Russians/ appeared to take the place of appeals to reason and understanding."[1]

The tone and dialogue of the Moscow meeting was to be repeated almost verbatim later that same year at the London Meeting of the Council of Foreign Ministers (November 25-December 16, 1947). Upon his return and in a speech to the American peoples on the progress made in London, the Secretary of State had to report in his first sentence that:

> The result of the recent meeting of the Council of Foreign Ministers in London was disappointing. . . . The continuous accusations against the

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[1] _Ibid._, p. 8.

> good faith, the integrity and the purposes of the governments of the Western powers, particularly the United States, necessarily added greatly to the confusion.[1]

and coming even more to the point: "It finally became clear that we could make no progress at this time . . . so I suggested that we adjourn."[2]

Synopsis

Perhaps under different conditions the United States could have afforded to play a waiting game, but such was not the situation which confronted our country in 1947. As Mr. Benjamin V. Cohen, Counselor of the Department of State told the national convention of the United States Junior Chamber of Commerce:

> People long tired, cold, hungry, and impoverished are not want to examine critically the credentials of those promising them food, shelter and clothes. And dictators, knowing that they intend to hold power if they can get it, will play the right side or the left side and sometimes both sides to get and keep power.[3]

Put at its simplest, the time had come to act. The luxury of being able to wait and remain inactive had come to an end. Upon his return from the Moscow Meeting of the Council of Foreign Ministers, the Secretary of State (in an address already cited) after listing the innumerable difficulties encountered in striving for cooperation with the U.S.S.R., in the closing part of his speech said:

> We cannot ignore the factor of time involved here. The recovery of Europe has been far slower than had been expected. . . . The patient is

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[1]George C. Marshall, an address by the Secretary of State on December 19, 1947, upon his return from the London Meeting of the Foreign Ministers (November 25-December 16, 1947), (Washington D.C.: Government Printing Office, 1947), p. 1.

[2]*Ibid*., p. 8.

[3]Benjamin V. Cohen, American Traditions in Today's Foreign Policy, Department of State Bulletin XVI, No. 416 (Washington, D. C.: Government Printing Office, 1947), p. 1230.

> sinking while the doctors deliberate. So I believe that action can not await compromise through exhaustion. Whatever action is possible to meet these pressing problems must be taken without delay. . . . The state of the world today and the position of the United States make mandatory, in my opinion, a unity of action on the part of the American people.[1]

The stage had been set for the creation of a "social invention." As Harvey S. Perloff was to later describe the Marshall Plan: "Normally we /mankind/ make our great moves forward through social inventions. The Marshall Plan was such an invention."[2]

No other single quote better summarizes the situation as it existed in late 1947 than the one which follows. No words better describe the background for what was to become one of our country's most significant foreign policy decisions in its entire history, than these words by Secretary of State George C. Marshall:

> Left to their /the western European countries/ own resources there will be, I believe, no escape from economic distress so intense, social discontents so violent, political confusion so widespread, and hopes for the future so shattered that the historical base of western civilization, of which we are by belief and inheritance an integral part, will take on a new form in the image of the tyranny that we fought to destroy in Germany. The vacuum which the war created in western Europe will be filled by the forces of which war was made. . . . The foundation of political vitality is economic recovery.[3]

That our unwillingness to help western Europe would create such a vacuum with its attendant ramifications was axiomatic to the President and to the Secretary of State (as well as to a host of others). Put at its very bluntest the message was certainly clear:

> Our country is now faced with a momentous decision. If we decide that we are unable or unwilling effectively to assist in the reconstruction

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[1]Marshall, Moscow address, pp. 17-18.

[2]Perloff, Alliance for Progress, p. xiii.

[3]Marshall, Assistance to European Economic Recovery, p. 1.

of western Europe, we must accept the consequences of its collapse into the dictatorship of police states.[1]

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[1]*Ibid.*, p. 8.

CHAPTER III

THE MARSHALL PLAN UNFOLDS

Introduction

Chapter II ended on the note that something must be done and done quickly. The waiting game was quite obviously weighted in favor of the Soviets and against the forces of reconstruction in western Europe. As Secretary of State George C. Marshall had so accurately said: "The patient is sinking while the doctors deliberate."[1] It was axiomatic that if effective assistance was going to be forthcoming it would have to come from the United States; it was equally self evident that virtually the full financial burden would come to fall on the shoulders of the United States.

To make the situation even more critical, an event of some magnitude had occurred some two weeks prior to the Moscow Meeting of the Big Four Foreign Ministers in March and April of 1947. Namely the United Kingdom had announced confidentially to the United States that they could no longer guarantee the security of the eastern Mediterranean region. The United States stepped in to help both Turkey and Greece in what effectively became the first containment of communism. The author will hereinafter refer to the Greece and Turkey incidents only as they directly relate to the Marshall Plan. It must be pointed out that these events only served to strengthen the beliefs in not only the United States but in western Europe as well,

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[1]Marshall, Moscow address, p. 17.

that coexistence between East and West was going to be difficult, and that any prospects for sincere cooperation on any substantial issue were swiftly turning into an ephemeral dream.

The Harvard Speech

The time was ripe for the speech which was to mark a watershed in our foreign policy.

> But the timing of a public statement, he [Marshall] felt, required careful consideration. The moment, in relation to the situation abroad--and at home, where apprehension over the European situation was mounting but isolationist opposition could be expected--must be such that the proposal would break with "explosive force". . . . It is easy to propose a great plan, but exceedingly difficult to manage the form and procedure so that it has a fair chance of political survival.[1]

The propitious moment described above was to be June 5, 1947, the site: Harvard University. It must be mentioned that no information concerning the speech was sent to the governments of the countries of western Europe for fear that any such early leakage might prompt criticism of an unwarranted nature. The speech is quoted in its most significant parts as follows:

> I need not tell you gentlemen that the world situation is dangerous. . . I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisement of the situation. . . . In considering the requirements for the rehabilitation of Europe, the physical loss of life, the visible destruction of cities, factories, mines and railroads was correctly estimated, but it has become obvious during recent months that this visible destruction was probably less serious that the dislocation of the entire fabric of European economy. . . . The breakdown of the business structure of Europe during the war was complete. . . . The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products--principally from America--are so much greater than her present ability to pay that she must have substantial additional help or face economic, social and political deterioration of a very grave character. The remedy lies in breaking the vicious circle and restoring the confidence of

[1]Price, The Marshall Plan, pp. 24-25.

> the European people in the economic future of their own countries and of Europe as a whole. . . . It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. . . . It is already evident that before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this government. It would be neither fitting nor efficacious for this government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of Europeans. The initiative, I think, must come from Europe. . . . The program should be a joint one. . . . /the United States must/ face up to the vast responsibility which history has clearly placed on our country.[1]

The Marshall Plan had been, if not technically born, at least officially conceived. President Truman publicly approved of the Marshall proposal on June 11, 1947, in an address at Ottawa.

Response

Initial response in the United States was understandably mixed. Many considered the Marshall Plan to be philanthropy of the highest and most noble order; others, strengthened in their beliefs by numerous reports of improper administration of previous foreign aid programs, were generally against any "give away" project. The cost of the proposed program must have been running through everyone's mind. Hartnett and Payzs bluntly tell us: "The aid Europe wants will add eight billion dollars to America's tax bill in 1948. That is two-fifths of the total sum paid in personal income tax."[2] On the subject of cost Secretary Marshall was later to tell the

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[1]George C. Marshall, European Initiative Essential to Economic Recovery, Department of State Publication No. 2882 (Washington D. C.: Government Printing Office, 1947), pp. 1-5.

[2]Hartnett and Payzs, The Marshall Plan, p. 37.

Senate Committee on Foreign Relations that the: ". . . proposed program does involve some sacrifice on the part of the American people, but . . . this program should be viewed as an investment in peace. In these terms, the cost is low."[1]

But more important, perhaps, than the reaction on the homefront to the proposed program, was the response in Europe. It was, by any standard, positive. After a few days to gather his thoughts on the proposal, French Foreign Minister Georges Bidault invited his British counterpart Mr. Bevin to meet with him in Paris for the purpose of discussing the matter. It was decided early in their talks, which began on June 13th, to include the Soviet Government in their project of submitting a reply to the United States. Messrs. Bevin and Bidault did meet later that month with Mr. Molotov but a familiar dialogue repeated itself, i.e. no agreement could be reached once again between East and West as to the reply to Secretary Marshall. The French and British proposed a steering committee whose function it would be to coordinate the work of subcommittees set up to examine resource levels and propose an outline for recovery. The Russians felt that such a set-up would involve interfering in the affairs of each nation and therefore counter-proposed that each nation make its own surveys and plans. The British and French stuck to their cooperative approach. The Soviets stuck to their individual approach, and when: ". . . it became clear that they could not be pried from this position, the Soviet delegation withdrew."[2]

The withdrawal of the U.S.S.R. was unfortunate in the sense that it marked somewhat conclusively and finally the end of any possible cooperation

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[1]Marshall, Assistance to European Economic Recovery, p. 3.

[2]Price, The Marshall Plan, p. 27.

on the entire subject of European economic recovery. The development must not have come as any great surprise to Secretary Marshall back in Washington, or for that matter to Bidault and Bevin in Paris. Despite the unfortunate aspects just touched upon, the Soviet withdrawal, had the effect of clearing the air. No longer forced to work with an uncooperative neighbor the countries of France and Britain, and for that matter all of the countries of western Europe, could now seriously turn to the work at hand.[1]

European Initiative

The day after the breakdown of the conference in Paris, Foreign Ministers Bidault and Bevin issued a joint communiqué to twenty-two other European nations to send representatives to Paris for the purpose of cooperating on the subject of economic recovery. When roll was called at the first meeting on July 12, Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom, all were represented. These countries became the "Sixteen-Power Conference."

The sixteen-power conference, for which preparations had been rapidly made, got off to a good start because of a number of reasons. The common desire for economic recovery must certainly be cited, as should the sincere feeling that it would only be through cooperation that a viable solution might be reached. Ironically enough, it was a product of the war which helped the sixteen nations in their cooperative efforts. Many of the countries in question had had "governments in exile" in London during the war and the men had worked quite extensively together. There had been, in addition, a great many collaborative efforts in Washington all of which had

[1] The subject of Soviet reaction to the Marshall Plan will be treated later in this chapter.

a cumulative effect of fostering the sort of joint effort which was so obviously going to be required. Price feels that inasmuch as this new "exercise" called for liaison and mutual confidence of an unprecedented nature, the wartime (and postwar) collaborations played a signal role in setting the requisite climate for the conference.[1]

The first order of business for the sixteen-power conference was to set up an interim Committee of European Economic Cooperation (CEEC) whose function it would be to probe and analyze the economic posture and productive capability of each of the sixteen nations. The results of this effort could then serve as the basis for determining, at least in a preliminary way, what each country would need in the way of assistance and what it might expect to accomplish.

> Technical committees were also established covering food and agriculture, fuel and power, iron and steel, and transportation. Additional committees were later formed to deal with timber, manpower, balance of payments, and a committee of financial experts to examine means of removing financial obstacles to intra-European trade.[2]

On September 22, the CEEC finished its work and in its proposal to the United States Government it outlined a four-year program designed to promote and foster economic recovery in the participating nations. More specifically in the General Report each participating country pledged itself:

1. To develop its production to reach the targets set, especially for food and coal.
2. To make the fullest and most effective use of its existing productive capacity and all available manpower.
3. To modernize its equipment and transportation, so that labor will become more productive, conditions of work are improved, and standards of living of all peoples of Europe are raised.
4. To apply all necessary measures leading to the rapid achievement

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[1]Price, <u>The Marshall Plan</u>, p. 36.

[2]Hartnett and Payzs, <u>The Marshall Plan</u>, p. 15.

of internal monetary and economic stability while maintaining in each country a high level of employment.
5. To cooperate with one another and like-minded countries in all possible steps to reduce tariffs and other barriers to the expansion of trade both between themselves and with the rest of the world, in accordance with principles of the International Trade Organization.
6. To remove progressively the obstacles to the free movement of persons within Europe.
7. To organize together the means by which common resources can be developed in partnership.[1]

By these means and provided that the necessary supplies and materials could be obtained from overseas, the Report claimed that European recovery could and would be achieved. As to the respective roles to be played by the donor and donees, the following words of Premier Bidault well described the special relationship:

> I might recall that in French victory and in French defeat at Marengo, at Waterloo, the decisive role was played by several thousand men who arrived at the last moment. It was the decisive role but not the principal role. As to the principal role, we /the Europeans/ will assume it, each of us. . . . The United States is the several thousand men who will decide the battle and victory against misery.[2]

The four-year program as drafted by the CEEC established the following specific production targets for the participant countries:

1. Restoration of pre-war bread, grain and other cereal production, large increases above pre-war levels in sugar and potatoes, some increases in oils and fats, and as fast an expansion in livestock products as supplies of feeding stuffs will allow.
2. Increase of coal output to 584,000,000 tons i.e., 145,000,000 tons above the 1947 level (an increase of one third) and 30,000,000 tons above the 1938 level.
3. Expansion of electricity output by nearly 70,000,000 kilowatt hours, or 40% above 1947 and an expansion of generating capacity of over 25,00,000 kilowatts, or two-thirds above pre-war.
4. Development of oil refining capacity in terms of crude oil by 70,000,000 tons to two and a half times the pre-war level.
5. Increase of crude steel production by 80% above 1947 to a level of 55,000,000 tons or 10,000,000 (20%) above 1938.

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[1]Committee of European Economic Cooperation, General Report, Department of State Publication No. 2930 (Washington, D.C.: Government Printing Office, 1947), p. 13.

[2]New York Times, July 3, 1947, p. 4.

6. Expansion of inland transport facilities to carry a 25% greater load in 1951 than in 1938.
7. Restoration by 1951 of the pre-war tonnage of the merchant fleets of the participating countries.
8. Supply from European production of most of the capital equipment needed for these expansions.[1]

That the sixteen countries should get together at all and accept the principle of mutual aid was to many observers an event of historic and unprecedented significance.

> Not only have they met and analyzed the European problem together, which seldom happened before, but they have set specific production goals. . . . and they have undertaken to try to finance the most of the capital equipment for these enlarged production goals out of their own capital. . . . Here are a number of states who seldom cooperated with one another in large-scale international economic and political projects, sitting down together and studying the problem of Europe as a whole, planning a joint production program. . . . Here are some of the most prominent of the victors and the neutrals and the vanquished listing themselves together as casualties of the war and appealing to the United States to save them from chaos. It is an altogether staggering proposition.[2]

In all fairness it must be pointed out that criticisms were lodged against the Paris report, some of which at least, were based on ostensible truth and common sense:

> It will be said that Europe does not need this much money to survive. . . . It can and will be said that the Paris report overlooked the attitude of the European farmers, who are hoarding food, causing misery and hunger in the urban areas of the Continent, and selling their precious commodities on the black market for the benefit not of the hungry but the well-fed. . . . It can, and will be said, also, that the European states have not really "committed" themselves to anything at Paris--in the sense that they can be made to carry out the commitments.[3]

But in the balance it must be allowed that the CEEC with its sixteen representative nations did in fact achieve major accomplishments in a remarkably short time.

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[1]Hartnett and Payzs, The Marshall Plan, p. 17.

[2]Summers, Economic Aid to Europe, p. 29.

[3]Ibid., pp. 30-31.

Soviet Reaction

Before looking at the groundwork which, in the meantime was being laid in the United States, it is necessary to dwell for a moment on the Soviet reaction to the CEEC. As has already been demonstrated the U.S.S.R. was in absolutely no hurry to see the economic recovery of western Europe become fact. Lack of Soviet cooperation at virtually all multi-national meetings had been the rule rather than the exception. The most recent example had occurred when Mr. Molotov, as previously mentioned, walked out of the Paris meeting called by Premiers Bidault and Bevin. The Russian position had been one of demanding that the United States Government specifically define the actual extent and nature of the aid it was promising. The Soviet Government also insisted that: ". . . no foreign interference in the affairs of the economic restoration of the countries of Europe can naturally be tolerated, because internal economic problems are the sovereign affair of each country, each nation.[1]

No sooner had Mr. Molotov walked out on the Paris "Big Three" meeting, than the U.S.S.R. sent letters to fourteen nations stating its views on the Marshall Plan. As a result of the letters Albania, Bulgaria, Finland, Hungary, Romania, and Yugoslavia all refused the invitation of Premiers Bidault and Bevin to participate in Paris. Two other countries must also be mentioned to make the tally complete. Poland and Czechoslovakia both initially accepted but under Soviet pressure withdrew.[2]

Simultaneously PRAVDA and TASS began to charge the United States

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[1]"Soviet Criticism of the Marshall Plan," World Report, III, No. 5 (July 29, 1947) p. 39.

[2]Price, The Marshall Plan, p. 28.

with all manner of accusations ranging from the desire to colonize western Europe, to meddling in the affairs of sovereign nations and to striving to prolong our postwar boom. Needless to say these harsh criticisms did not go unnoticed or unanswered:

> We are aware of the seriousness and extent of the campaign which is being directed against us as one of the bulwarks of western civilization. . . . We do not propose to stand by and watch the disintegration of the international community to which we belong.[1]

The Communist propaganda against the Marshall Plan was soon accompanied by other actions. On July 6, the Cominform, a new organization, was established representing Communists of nine countries: Russia, France, Yugoslovia, Italy, Poland, Bulgaria, Czechoslovakia, Hungary and Rumania.[2] The Cominform included in its Manifesto:

> . . . that the United States and Great Britain are leading an imperialistic campaign against the democracies of eastern Europe. . . . The Truman-Marshall Plan is only a farce, a European branch of the general world plan of political expansion being relized by the United States of America in all parts of the world.[3]

As a result of the Cominform a series of negotiated trade agreements involving barter arrangements and grain aid were put into effect between the U.S.S.R. and its satellite states. Known as the Molotov Plan they did serve to divert a good size volume of trade which heretofore had flowed to western Europe.

Groundwork at Home

While the CEEC was feverishly preparing its report to the United States, a complementary effort was being undertaken in the United States.

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[1]Marshall, European Revival and German and Austrian Peace Settlements, p. 14.

[2]Price, The Marshall Plan, p. 28.

[3]New York Times, October 6, 1947, p. 3.

On June 22, 1947, President Truman appointed three committees to examine the basic questions involved in the general area of European recovery. The first of these committees was charged with the responsibility of studying our own resources with the view of being able to determine an ability to support a recovery program. This first committee was chaired by Secretary of the Interior Krug. The second committee had a goal closely allied to that of the first, namely, what would be the impact on our economy of a recovery program. This committee was made up of the members of the Council of Economic Advisers and came to be known as the Nourse Committee. The third and final committee (ultimately called the Harriman Committee) had a more general charter which called for it to: ". . . determine the limits within which the United States could safely and wisely extend aid to western Europe."[1] Although the Harriman Committee report is perhaps the most celebrated of the three, we should consider first the Krug Report because it furnished the data upon which the Harriman Committee decided that the United States could, in fact, export enough goods and materials to carry out what was to become the Marshall Plan.

The Krug Report

The Krug Committee noted that our economy was operating at the highest peacetime level in our history ($204 billion in 1946) and that this high-level production meant that we were quite close to fully utilizing our our plants and equipment.[2] The Committee went on to point out that our

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[1]President's Committee on Foreign Aid, European Recovery and American Aid, a report dated November 7, 1947 (Washington D. C.: Government Printing Office, 1947), p. 3.

[2]J. A. Krug, Secretary of the Interior, National Resources and Foreign Aid, a report to the President of the United States (Washington, D.C.: Government Printing Office, 1947), pp. 2-3.

exhaustible natural resources were being used up faster than ever before. Notwithstanding the criticality of the two items just mentioned, the Krug Committee felt that we could export enough goods to substantially aid western Europe. Five goods or categories of goods, however, were felt to be of a critical nature: (1) food, especially cereals and in particular wheat; (2) fertilizer, especially nitrogen fertilizer; (3) coal; (4) steel; and (5) mechanical equipment. The Krug Committee felt that of these five goods the single most critical one was steel, primarily because many of our own steel mills were already sitting idle for lack of scrap and pig iron. It is interesting and worthy of note that while the Krug Report felt the critical good to be steel, the Harriman Committee felt, as we shall see in a moment, that the output of coal was uppermost on the list of priorities. In summary the Krug Report declared that the economy of the United States could provide the resources for a considerable program of foreign aid without jeopardizing either our national security or our standard of living.

The Nourse Report

The Council of Economic Advisers made public its "Nourse Report" (named after the chairman of the Council) on November 1, 1947. Essentially a short report (43 pages of text plus a 20-odd page statistical appendix) it made clear from the onset, page 2 to be exact, that: "It is no part of our task to evaluate the size or character of the European need--that being a part of the task of the committee of citizens under the chairmanship of the Secretary of Commerce."[1] The Nourse Committee set

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[1]Council of Economic Advisers, The Impact of Foreign Aid Upon The Domestic Economy, a report to the President of the United States (Washington, D.C.: Government Printing Office, 1947), p. 2.

itself the task of analyzing whether or not a large scale program of the type envisioned would throw our own economic system off the track. It addressed the topic of inflation directly and head on. Many feared that to increase production even further to satisfy a European demand would certainly result in serious inflation because of present near-capacity production, but the Nourse Report felt that foreign buying had to be kept in proper perspective and that: ". . . looking at the economy generally, price inflation in this country has arisen mainly from other sources."[1] Looking beyond 1948 which was to be the biggest year of the Plan, the Nourse Report said: ". . . the impact of the demand created by foreign aid is likely to be less inflationary as time goes on. . . . /and/ while the size of the export surplus has certainly created some problems, these problems have not prevented us from moving to unprecedented levels of domestic employment."[2] The Nourse Committee, as had the Krug Committee, stressed the importance of managing key commodities extremely carefully. By way of summary, the Nourse Report stated:

> In the long run, the economic restoration of Europe will benefit our own economy by enabling us to obtain more goods by advantageous trade. On the other hand, a cessation of foreign aid would force an economic reorientation of Europe which would be detrimental to our economy.[3]

The Harriman Report

Notwithstanding the fine work of the Krug and Nourse Committees, it was to fall on the shoulders of the Harriman Committee to anticipate the problems that would arise and to lay a groundwork for a sound program.

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[1]*Ibid.*, p. 21.

[2]*Ibid.*, p. 20.

[3]*Ibid.*, p. 42.

The caliber of individuals chosen to be in the nineteen-member group was truly that of "distinguished citizen." With the exception of W. Averell Harriman who was the Secretary of Commerce, the rest of the group was from the "outside." Presidents of corporations and universities made up the membership together with labor and farming experts and the list was truly of "blue ribbon" quality. It is significant that at the very beginning of the Committee's Report it is emphatically stated: "We believe that the future of western Europe lies very much in its own hands. No amount of outside aid, however generous, can by itself restore to health the economies of the sixteen nations which met at Paris in July."[1] I shall return later to the concept of self-help for in it, I believe, lies one of the principal reasons for the Marshall Plan's success.

> On the basis of revised estimates of European imports and exports, the Committee calculates that the cost of the European Aid program to the Government of the United States would be about 5.75 billions of dollars for the first year, and, in round numbers, between 12 and 17 billion dollars for the whole program here suggested.[2]

The Report went on to point out that these figures did <u>not</u> agree with those of the Paris CEEC report: "The Paris estimates of imports have to be revised downward, mainly on the grounds of unavailability of foods."[3] Morever the Committee thought that the International Bank and private financing could shoulder part of the burden.

The basic conclusions of the Harriman Committee may be summarized as follows:

1. The hope of western Europe depends primarily on the industry and straight thinking of its own people.

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[1]President's Committee on Foreign Aid, <u>European Recovery and American Aid</u>, p. 3.

[2]<u>Ibid</u>., p. 8.

[3]<u>Ibid</u>., p. 8.

2. The United States has a vital interest--humanitarian, economic, strategic, and political--in helping the participating countries to achieve economic recovery.
3. The aid which the United States gives will impose definite sacrifice on this country.
4. The magnitude of western Europe's deficit with the American continent in 1948 will be of the order of 7 billion dollars, but when all possibilities of financing are taken into consideration, the approximate need for appropriations past and future to cover the calendar year of 1948 may be of the order of 5.75 billion dollars.
5. The extension of such aid, now or in the future, calls for anti-inflationary fiscal policies on the part of this country, and a new agency to administer the aid extended.[1]

The Harriman Committee admonished that:

> . . . it is well to bear in mind that success depends on giving way neither to over-optimism or to undue pessimism. It is one thing to propose a program, it is another to see it through. The immediate months and indeed years ahead are not apt to be easy either for this country or for the European nations. It is not wise to underestimate the steepness of the climb.[2]

One final point about the Harriman Committee Report must be made. The report stressed that the financing of the program must be through taxation and not through Government borrowing.

It should be mentioned at this juncture that while the three committees just mentioned were busily going about their work, extensive groundwork by the executive agencies was being laid, partly in support of the three committees, and also to the end of translating the Marshall Plan from a broad concept to a specific, workable program which could be presented to the Congress.

Congress and the Herter Report

Congress had not been slow to react on the subject of the Marshall Plan. As Hartnett and Payzs point out:

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[1] _Ibid._, p. 11.

[2] _Ibid._, p. 11.

As Congress was in session when Secretary Marshall made his June 5th proposal, its members quickly laid plans to unearth the relevant facts for themselves. The fact that the Republican Party controls both branches of our national legislature no doubt contributes to their decision to investigate the European situation independently of the studies made by agents of the Democratic executive branch.[1]

Congressional "look-see" took many shapes including European trips by some 200 members of Congress to witness first-hand the plight of Europe. "But the most important Congressional investigating body proved to be the House Select Committee on Foreign Aid."[2] With a membership of nineteen, the Committee had Representative Christian Herter of the Ways and Means Committee as its executive head and came to be known as the Herter Committee. In short, the Herter Report enumerated the following basic requisites of a program of foreign aid:

1. The production of food and other materials must be increased by the recipient countries.
2. Economic cooperation must be facilitated by the recipient countries themselves.
3. Certain countries other than the United States should be expected to cooperate.
4. Private initiative must be encouraged to assume to emergency activities.
5. Fiscal policies and financial and monetary programs should be adopted to restore confidence in their currencies.
6. Publicity as to the use made of the aid furnished should be given by the recipient countries to the United States.[3]

The extensive traveling done by the members of the Committee, the interest that they shared in this serious matter and the copious homework which was obviously done were to become the background for the hearings about to take place in the Congress.

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[1]Hartnett and Payzs, The Marshall Plan, p. 30.

[2]Ibid., pp. 30-31.

[3]House Select Committee on Foreign Aid, Proposed Principles and Organization for Any Program of Foreign Aid, Report No. 8 of November 25, 1947 (Washington, D.C.: Government Printing Office, 1947), p. 4.

Role of The President

The message of the President to the Congress on December 19, 1947, served as the official prologue to the hearings and debate which were to follow and it deserves to be quoted in applicable part:

> In proposing that the Congress enact a program of aid to Europe, I am proposing that this Nation contribute to world peace and to its own security by assisting in the recovery of sixteen countries which, like the United States, are devoted to the preservation of free institutions and enduring peace among nations. . . . In providing aid to Europe we must share more than goods and funds. We must give our moral support to those nations in their struggle to rekindle the fires of hope and strength and the will of their peoples to overcome their adversities.[1]

The President recommended that Congress authorize the appropiation of 17 billion dollars from April 1, 1947 to June 30, 1952 of which 6.8 billion dollars should be actually appropriated in time to cover the 15 month period of April 1, 1948 to June 30, 1949. More specifically, President Truman stated that the program was designed:

1. To make genuine recovery possible within a definite period of time.
2. To insure that the funds and foods we furnish be used most effectively for their purpose.
3. To minimize the financial cost to us and at the same time to avoid placing crushing financial burdens on Europe.
4. To conserve our physical resources and minimize the impact of the program on our economy.
5. To harmonize with our existing international relationships and responsibilities.
6. To provide wise and efficient administration.[2]

Simultaneously with the President's Message to Congress on December 19, 1947, the Secretary of State submitted to the Chairman of the Senate Foreign Relations Committee and to the Chairman of the House Foreign Affairs Committee, a draft bill embodying the foreign-aid program. The short title of the proposed Act was the "Economic Cooperation Act of 1948."

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[1]Truman, United States Aid to European Recovery, p. 19.

[2]Ibid., p. 17.

A Time for Decision

The time had come for decision. It was to be the sort of decision which, as Senator Vandenberg later said, truly tried men's souls. To add yet another very real dimension to the situation as it existed in the early days of 1948 it must be remembered that 1948 was an election year. It goes without saying that this fact was not lost on the Democratic Administration or on the Republican Congress.

> Meanwhile, a growing number of citizens were becoming aware that without prompt and widespread support the proposal for a large new aid program would encounter heavy opposition in Congress and that failure might be disastrous. Private organizations, in increasing number, became actively interested, and . . . in late 1947 a special citizens' Committee for the Marshall Plan was organized to inform the American people of the facts and issues and to enlist their support for the program.[1]

This is not to say that there were not opponents to the proposed program. The American Labor Party, the National Economic Council and the American Coalition among others were opposed to the European Recovery Program.

It is altogether fitting that we should look first at the testimony of Secretary Marshall before the Senate Committee on Foreign Relations. He expresses so well what many, who followed him in the hearings which lasted the next several months, were to repeat in less eloquent terms:

> A nation in which the voice of its people directs the conduct of its affairs cannot embark on an undertaking of such magnitude and significance for light or purely sentimental reasons. Decisions of this importance are dictated by the highest considerations of national interest. There are none higher, I am sure, than the establishment of enduring peace and the maintenance of true freedom for the individual. . . . I ask that the European recovery program be judged in these terms and on this basis. . . . Without the reestablishment of economic health and vigor in the free countries of Europe. Without the restoration of their social and political strength necessarily associated with economic recoperation, the prospect for the American people, and for free

[1]Price, The Marshall Plan, p. 55.

> people everywhere, to find peace with justice and well-being and security for themselves and their children will be gravely prejudiced.[1]

The Secretary of State did not fail to point out that the program would be a costly one but simply stated that its cost was an investment for the future:

> This program will cost our country billions of dollars. It will impose a burden on the American taxpayer. It will require sacrifices today in order that we may enjoy security and peace tomorrow. Should the Congress approve the program for European recovery, as I urgently recommend, we Americans will have made an historic decision of our peacetime history.[2]

As to the chances for the program's success, the Secretary was not so naive as to think it would not be an uphill climb, one frought with monumental problems, but then Secretary Marshall felt that the alternative was clearly and absolutely unacceptable:

> What are the prospects of success of such a program for the economic recovery of a continent? It would be absurd to deny the existence of obstacles and risks. . . . All we can say is this program does provide the means for success and if we maintain the will for success I believe that success will be achieved. To be quite clear, this unprecedented endeavor of the new world to help the old is neither sure nor easy. It is a calculated risk. But there can be no doubts as to the alternatives. The way of life we have known is literally in balance.[3]

A few days later on January 12, 1948, the Secretary testified before the House Committee on Foreign Affairs using essentially the same arguments on behalf of the European Recovery Program as he had before the Senate Committee.

On the subject of the hearings which followed, suffice it to say that they present a voluminous record. Those before the Senate Committee totalled over 1,400 pages; those before the House Committee totalled over

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[1]Marshall, Assistance to European Economic Recovery, p. 1.

[2]*Ibid.*, p. 1.

[3]*Ibid.*, p. 8.

2,200 pages. It is interesting to note that of the approximately 270 individuals heard, only 34 (less than 15%) were government personnel. The hearings brought into focus the entire range of issues concerned. The bill after being marked up was ready for presentation to Congress.

On the floor of the Senate the brilliant oratory of one-time "isolationist" Senator Vandenberg stands out in particular. It was before a packed Senate that Senator Vandenberg rose to deliver his major address in support of the Marshall Plan:

> . . . Mr. President, the decision which here concerns the Senate is the kind that tries men's souls. I understand and share the anxieties involved. It would be a far happier circumstance if we could close our eyes to reality, comfortably retire within our bastions, and dream of an isolated and prosperous peace. But that which was once our luxury would now become our folly. . . . There are no blueprints to guarantee results. We are entirely surrounded by calculated risks. I profoundly believe that the pending program is the best of these risks.[1]

How true is Price's observation that:

> The drama that precedes a momentous legislative decision is only faintly reflected in the enactment which finally emerges. This is particularly true of the Foreign Assistance Act of 1948 authorizing the Marshall Plan operation.[2]

While majority support was apparently certain, this in no way prevented sharp and lengthy criticism. Senator George W. Malone, for example, held the floor for two days in opposition. When the votes were finally taken, the count in favor of adoption was 69 to 17 in the Senate and 329 to 74 in the House of Representatives. The Republican vote in support of the Marshall Plan was 31 to 13 in the Senate and 171 to 63 in the House. The Democratic tally was 38 to 4 in the Senate and 158 to 11 in the House.[3] Differences were resolved in conference, the act was promptly approved in

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[1]United States Senate, Senator Vandenberg speaking for the Marshall Plan, March 1, 1948, <u>Congressional Record</u>, pp. 1981-1986.

[2]Price, <u>The Marshall Plan</u>, p. 49.

[3]<u>Ibid</u>., p. 70.

both the Senate and the House of Representatives, and became law on April 3, 1948.

CHAPTER IV

FIFTY-ONE MONTHS TOWARDS ECONOMIC RECOVERY

Introduction

Although April 3, 1948, is remembered as the date marking the official beginning of the Marshall Plan, in point of fact a great deal of administrative groundwork had already been started. In an article entitled "Reminiscences of the Marshall Plan," C. Tyler Wood (now Special Assistant to the Director of the Agency for International Development) recalls:

> At about this same time /summer of 1947/ Mr. Clayton /then an Assistant Secretary of State/ had things moving in new directions in Washington. He asked me to head an informal group we called the "board of directors", which was set up after Secretary George Marshall's speech at Harvard on June 5, 1947, to lay plans for the carrying out of the European Recovery Program, which came to be known as the Marshall Plan. . . . We met every other night in a conference room of the old State Department Building.[1]

The ground had been prepared for the planting of the seed. The act which gave life to the Marshall Plan on April 3, 1948, provided for the necessary mechanism to administer the gigantic enterprise. The Economic Cooperation Administration (E.C.A.) was the newly-created vehicle to implement the law and its headquarters was to be in Washington.

Appointment of the First Administrator

The April 3, 1948 legislation provided that the E.C.A. would be

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[1] "Reminiscences of the Marshall Plan", Front Lines, May 30, 1967, p. 4.

headed by an Administrator appointed by the President with the advice and consent of the Senate. The bill related the Administrator of E.C.A. to the Secretary of State in the following way: "All those functions of the Administration /E.C.A./ which affect the conduct of the foreign policy of the United States shall be performed subject to the direction and control of the Secretary of State."[1]

Three days after passage of the act, President Truman appointed Paul G. Hoffman to be Administrator. Mr. Hoffman had been a self-made businessman who had risen through the ranks of the Studebaker Corporation to become its president in 1935.[2] President Truman's initial choice for the post was former Under Secretary of State Dean Acheson but when the President consulted Senator Vandenberg on this matter, it became clear that the Republican majority in Congress wanted a man with a broad business (as opposed to government) background and preferably a Republican. Since the name of Hoffman was apparently near the top of every list of possible candidates, Senator Vandenberg was able to assure the President that Hoffman's appointment would be quickly endorsed by the Senate. President Truman nominated Paul Hoffman on April 6, 1948. Three days later on April 9, Mr. Hoffman was sworn into office.

Reduced to its simplest terms, Mr. Hoffman had a two-sided problem to solve, neither part of which could be postponed. On the one hand, the immediate and adequate economic support to a very wobbly Europe was, of

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[1]Hartnett and Payzs, The Marshall Plan, p. 48.

[2]Mr. Hoffman's long career as a leader of industry and distinguished public servant was not to end when he left the E.C.A. in 1951. In 1951, he was made president of the Ford Foundation; in 1954 he returned to the business world as chairman of the board of the Studebaker-Packard Corporation. He subsequently left Studebaker-Packard to serve at the United Nations where he was Administrator of the United Nations Development Programme until January, 1972.

course, the purpose behind the Marshall Plan in the first place. But almost of equal importance, Mr. Hoffman was faced with setting up the proper mechanism which could efficiently and effectively handle the four-year, multi-billion dollar program. Price interviewed Mr. Hoffman at the time and quoted him as candidly admitting that: ". . . of course I was appalled by the job. No one had a blueprint."[1]

Selection of Key Staff

With temporary offices in the Statler Hotel in Washington, Mr. Hoffman proceeded to put together his immediate staff. The list reads like a page out of "Who's Who" and included among others: Maurice T. Moore, president of Time magazine; Edward Mason, Dean of the Harvard School of Public Administration; and Wayne Taylor, ex-president of the Export-Import Bank. Several of the men in question had been members of the Harriman Committee and therefore were already well "up to speed" on the range and depth of problems involved. For the job of "Special Representative in Europe"[2] Mr. Hoffman, aware that President Truman wanted a Democrat, recommended Averell Harriman or Lew Douglas (the latter then our ambassador to Great Britain). The President chose Harriman and as Harriman's assistant in Paris, Mr. William C. Foster who had achieved an outstanding reputation as an administrator while serving as Under Secretary of Commerce. The "first team" had been chosen.

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[1]Price, The Marshall Plan, p. 74.

[2]The law stipulated that the Special Representative in Europe would have the rank of Ambassador and would serve as the chief representative of the United States government to any organization of participating countries which might be established.

Modus Operandi

Among the first major decisions made by Mr. Hoffman and his staff was to not engage directly in the purchase of materials and supplies. Procurement, instead, was handled by the recipient governments and by private firms of the participating countries. Apart from not requiring what would have had to be a sizeable procurement operation in view of the dollars to be spent, the decision not to engage directly in the purchasing arena also served to foster the use of private international trade channels.

It must be stressed that while the procurement process was not handled by E.C.A., that Administration did not, however, relinquish control over the requests submitted by the governments of the participating countries. A procedure which came to be known as the "PA system" (for Procurement Authorization) evolved by which applications for a commodity were submitted by country representatives in Washington, reviewed by the E.C.A. (to determine if they conformed to established criteria, whether or not substitutions could be made, and what effect the proposed procurement would have on our economy) and, if approved, a letter of commitment would be issued to cooperating bank guaranteeing reimbursement for the credit extended. While this review procedure at first glance may seem excessively burdensome, it served to provide the E.C.A. with the detailed information which was needed to present to the Congress and to the American people as evidence that assistance funds were being used for essential purposes and that tight internal accounting procedures were being observed.

One cannot discuss the functioning of the system without examining the role played by counterpart funds. Mr. Joseph L. Newman (then with the E.C.A. and now with the Agency for International Development) feels that the concept of counterpart funds was a major contributory factor to the

success of the mechanics of the system.[1] To review briefly, the counterpart fund system worked as follows: when a French farmer, for example, needed a certain type of implement such as a tractor, he would "order it" and pay for it in French francs, the francs going into a special account; in the meantime the tractor would be built in the United States and the E.C.A. would pay the U.S. tractor manufacturer for his product; the tractor would then be shipped to the French farmer who would put it to use; at the same time, the E.C.A. would permit the French government to spend the farmer's francs (earmarked from the beginning and for all intents and purposes in escrow) on the rebuilding of a bridge, the construction of a plant or some other E.C.A.-approved project. Mr. Newman points out that the dollars did "double duty" as the vernacular of the day called it: money was pumped into our own economy and at the same time a critical reconstruction project in France became a reality.

As mentioned early in this chapter the E.C.A. was charged with coordinating all foreign-policy-related matters with the Secretary of State. This close liaison with the Department of State did not go uncriticized. The Brookings Institution had come up with the idea that the E.C.A. should function under an Administrator of Cabinet rank who would report to and be directly responsible to the President. The Administrator would be advised by an Advisor Board comprised of prominent citizens appointed by the President. Under the Brookings scheme there would have been a clear and absolute dichotomy between the Secretary of State (who would have retained sole control of our foreign relations) and the Administrator of E.C.A. (who would have had sole control of the economic side of the European Recovery Program.)

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[1]Interview, Joseph L. Newman (A.I.D.) Washington, D.C., August 24, 1971.

Both would have been equals by virtue of their cabinet ranks and disagreements between them would have been solved at the Presidential level. While the Brookings Institution plan did not find wholesale approval, many of its minor proposals found their way into the everyday workings of the E.C.A.

The European office of the E.C.A. under the Special Representative (Averell Harriman) deserves attention at this point. When Harriman accepted the offer to head up the Paris office it was with the understanding that he would be given a broad range of decision-making powers. The idea that the Paris operation should be a small staff of key officials apparently did not survive very long and in its place came just the opposite: a strong European headquarters very similar in both organization and functions to its Washington counterpart. Only the politically naive would wonder as to why such a "parallel" organization was established in Paris to mirror the one in Washington.

> Never before had an overseas regional office been set up to play so large a part in a peacetime operation of the United States government. Two factors appear to have been chiefly responsible. One was the need for a high-level branch of the E.C.A. to deal with the O.E.E.C.--the joint European organization. The other was the necessity for an arrangement acceptable to both the Republican-controlled Congress and the Democratic Administration, giving exceptionally capable individuals from the two parties top posts of nearly equal status.[1]

Paralleling both the structure and pattern of the E.C.A. in Washington and the Office of the Special Representative in Paris, were our respective country missions. The men who came to be the "chief of mission"[2]

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[1]Price, The Marshall Plan, p. 76.

[2]The term "chief of mission" is now used by the Department of State to refer to our ambassador in a given country. The ambassador in turn heads up the "country team" which may include representatives from a number of non-State Department Agencies (DOD, Agriculture, etc.) Technically and perhaps more accurately the men in question might have been called "Chief of the E.C.A. Mission."

ranked second only to ambassador in each country. They were charged with the responsibility for United States participation in the economic recovery program for their particular country. The significance of overall direction of economic and technical work and the reviewing of the effects of United States assistance in a given country resulted in what Price calls: ". . . quasi-ambassadorial functions of day-to-day negotiations and consultations with the participating governments."[1] The matter of giving the E.C.A. mission chief the prestige of the "number two" position in our large embassies in western Europe caused no small amount of "weeping and wailing" among career foreign officers. In hindsight, however, notwithstanding the temporarily damaged prestige and ruffled feathers, the superimposition of non-foreign service officers at such a high level in our embassies served to insure top-level attention to this project.

Organization for European Economic Cooperation

In the meantime, the leaders of the western European countries were hard at work shaping an organization which would be complimentary to the E.C.A. and the Office of the Special Representative. "The sixteen European countries early recognized that they needed a unified European counterpart to the American administration for aid to Europe."[2] The Committee of European Economic Cooperation, which the summer before had done such a tremendous job in coming up with a proposed "game plan" for economic recovery, reconvened in March of 1948 (in anticipation of successful passage of the European Recovery Program in our Congress) to plan a more permanent vehicle

[1]Price, The Marshall Plan, p. 78.

[2]Hartnett and Payzs, The Marshall Plan, p. 55.

of cooperation. Three committees were set up: one, to draft a general agreement of intentions and obligation; the second to examine legal and administrative problems which might arise as a result of forming such a permanent organization; and finally, one to consider the structure and functions of the proposed body. The British concept of: ". . . an organization that would function as a continuous international conference, not as a supranational body . . . prevailed."[1]

The debates which followed as to the tone and structure of the proposed organization, represented a "jockeying for position," particularly on the part of the smaller countries. It is axiomatic that for centuries the more powerful countries in the area had wielded a strong influence and often-times direct control over the smaller nations. These smaller countries were this time determined that they should not be relegated to "back seat" positions. The result was to be that out of the top three positions, one (Secretary General) was held be France, the second (Chairman of the Executive Committee) by Great Britain and the third (Chairman of the organization's top Council) by Belgium. Despite the "juggling" for power which went on, a draft constitution was prepared and submitted to the Committee on April 16, 1948. It is interesting to note that in adopting the constitution, each nation pledged itself to essentially the same sort of goals to which they had committed themselves a year before in responding to Secretary of State Marshall's Harvard speech.[2] All of these events took place within a remarkably short period of time and by early May the O.E.E.C. was

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[1]Price, The Marshall Plan, p. 80.

[2]Briefly reiterated these goals were: a maximum increase in production and trade, a multilateral system of payments, a reduction in economic barriers and the avoidance of disequilibrium in their financial and economic relations.

a going concern.

The viability of the O.E.E.C. was given its first acid test just a few weeks later. Baron Charles J. Snoy of Belgium was interviewed by Price and was quoted as saying:

> The most important episode in the early history of the O.E.E.C. came when the Americans said: "You recommend the division of aid." We feared it would wreck the Organization. Yet it was possible. We had to learn cooperation. No one could take the responsibility for jeopardizing the whole plan, even if dissatisfied with any particular decision. It was a great lesson for us. We knew intellectually that this was necessary.[1]

The decision on the part of the United States to let the pie be split by the recipient countries was as brilliant as it was daring.[2] The pragmatic need for economic assistance fostered (perhaps "forced" would be a better word) cooperation of a nature which had never before been known in Europe. As Harnett and Payzs tell us: "These beginnings have a significance beyond the four-year recovery program."[3] This particular point represents one of the signal concepts underlying the success of the Marshall Plan and will be referred to again later in this thesis.

A Strong and Enthusiastic Start

E.C.A. operations started the very same day that Mr. Hoffman took office (April 9, 1948) and two weeks later the freighter John H. Quick sailed from Galveston, Texas to Bordeaux, France, its hull filled with wheat marking the first shipment of goods under the Marshall Plan.

The atmosphere within the E.C.A. in those early days can best be

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[1]Price, The Marshall Plan, pp. 82-83.

[2]Interview, Joseph L. Newman (A.I.D.), Washington, D.C., August 24, 1971.

[3]Hartnett and Payzs, The Marshall Plan, p. 55.

described as electric:

> It is hard now to recapture the feeling of eagerness and esprit de corps we all felt in those days. People thought nothing of working around the clock. We had a sense of mission, a sense that we were participating in one of the great movements of history. . . .[1]

These sentiments were mirrored almost exactly by Mr. Valerio Montanari when he said: "The early days were characterized by long hours, hard work, enthusiasm and the feeling that there was 'a great job to do in a hurry.'"[2]

By June 30, 1948 (less than 90 days from the date the European Recovery Program had been enacted into law) a total of 1.3 billion dollars had been obligated.[3] Apparently in coming up with this figure Mr. Price included not only the dollar value of goods shipped and amounts obligated, but the value of loans under negotiation (plus those already completed and approved) because in comparing his figures with official data there is a significant discrepancy. Agency for International Development statistics for the same period (April 3-June 30, 1948) reveal that 766 million dollars (versus 1.3 billion dollars as reported by Price) in grants and loan authorization were obligated.[4] By way of explanation, it is quite possible that a number of transactions counted by Price did not end up (for accounting purposes) in fiscal year 1948 because the funds were not officially obligated until after 30 June and therefore ended up in the totals for the

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[1]"Reminiscences of the Marshall Plan," Front Lines, May 30, 1967, p. 4.

[2]Interview, Valerio Montanari (A.I.D.), Washington, D.C., August 24, 1971.

[3]Price, The Marshall Plan, p. 83.

[4]U.S. Agency for International Development, U.S. Economic Assistance Programs, April 3, 1948-June 30, 1970 (Washington, D.C.: Agency for International Development, 1971), p. 6.

following fiscal year. But regardless of whether the figure was 1.3 billion dollars or 766 million dollars, the fact remains that an extraordinary volume of business was transacted by the fledgling agency.[1]

Leaving behind the first 90 days of operation and looking ahead to the rest of the life span of the Marshall Plan, it quickly becomes apparent that the program lends itself particularly well to a four-part, fiscal-year-by-fiscal-year account. Principal among the reasons why this is the case is that the nature of the program changed markedly each fiscal year.[2] The second main reason for a year-by-year examination of the European Recovery Program is that the appropriations came from the Congress on that basis and the amounts in question changed significantly over the four-year period. Yet a third and final major reason for choosing such a seemingly arbitrary division, is that the Korean War broke out at almost exactly the half-way point in the Marshall Plan and its influence on the thrust of the second half of the program is not only interesting but must necessarily be examined if we are to get the complete picture.

1948 - 1949 (FY'49)

Early in the summer of 1948, each of the countries was tasked with coming up with a plan of action to permit reaching a position of economic independence by June 30, 1952. In addition to this four year plan which necessarily was of a more general nature, the countries in question came up with a highly-detailed proposed program for the first full year of

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[1]Virtually the entire amount went for bulk commodities; less than one per cent was spent on machinery and equipment.

[2]What was the first year a food and raw materials type of operation later evolved into a tools and machinery sort of program and ultimately (because of the Korean War) became a military-oriented assistance effort.

operation. In making up their proposals the countries had to, among other things:

> . . . decide whether the plan should be limited to imports financed with American aid, or whether it should encompass a complete import program for western Europe. The latter and bolder course was chosen, since the role of the United States-financed imports could be intelligently assessed only in the light of total anticipated imports, and since the E.C.A. required a knowledge of prospective European resources as a whole before it could justify the American aid needed.[1]

More specifically the agricultural gains (over the previous years) were forecasted to be as follows: bread grains 45 per cent; coarse grains 12 per cent; beet sugar 26 per cent; oil cake and meal 45 per cent. Coal production was expected to climb 13 per cent, pig iron 68 per cent, and crude steel 50 per cent. In other areas substantial increases over 1947 levels were expected in wood pulp (23 per cent), potash (29 per cent), nitrogen-based fertilizer (27 per cent) and maritime tonnage (17 per cent). To put the anticipated gains in perspective one should keep in mind that as of 1947, all of the participating countries had been given an (necessarily very rough) index of 88 using available statistics for 1938 to serve as a base level of 100.[2] While elctric power was already at an index figure of 144, other critical items were much lower than the aggregate level of 88 which the O.E.E.C. had assigned. Bread grains, for example were at 62; meat production at 71; cement at 73; and steel and coal at 81 and 83 respectively. In other words a few items (such as the electric power output) tended to bring up the average but as a result, may have distorted the economic picture. By and large, the industrial items were better off than were the agricultural commodities. We will look at these same commodities

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[1]Price, The Marshall Plan, p. 94.

[2]Organization for European Economic Cooperation, Ninth Report of the O.E.E.C. A Decade of Cooperation, Achievements, and Perspectives (Paris: O.E.E.C., 1958) pp. 30-31.

later to determine if they attained or surpassed their goals by June 30, 1952.

The preceding in essence represented the first annual program and in its report to the E.C.A., the O.E.E.C. was able to make a boast of some significance: "There exists in the Organization a means, unprecedented in the scope and continuity of its work, for the members to grapple internationally and cooperatively with the practical problems of the European economy."[1] This is an underlying theme of the greatest significance which will be treated in some detail in Chapters V and VI.

By June 30, 1949, a total of $6.283 billion had either been granted outright or loaned on a low-interest basis.[2] The ratio of grants to loans during this particular period was approximately 4:1. The figure of $6.283 billion includes the three-months in fiscal year 1948 already mentioned, during which $766 million had been obligated. The "clean" figure for fiscal year 1949 was $5.517 billion which was the biggest year of the program. Two-thirds of the total amount had been spent in the United States; the remaining third "offshore." Food, feed and fertilizer as a single category accounted for 36 percent of the assistance; raw materials and semi-finished products as another category added an additional 31 percent; when you add in another 16 percent for fuel it is apparent that the first 15 months represented more of a relief effort than an economic recovery program. Program emphasis was soon to change to machinery and vehicles--tools of true economic recovery.

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[1]Organization for European Economic Cooperation, Report to the Economic Cooperation Administration on the First Annual Programme (Paris: O.E.E.C., 1948), p. 15.

[2]Agency for International Development, U.S. Economic Assistance Programs, p. 68.

Production gains can be described quite simply. During the first half of fiscal 1948 increases were disappointingly modest; during the second half of the year, however, a strong recovery came into play. The April-May-June quarter of 1949 sported an industrial output index of approximately 110.[1] However, while industrial production for the entire fiscal year was at approximately 103 (thanks primarily to the already-mentioned fourth quarter performance of 110), agricultural output was still only at 93.[2] Particularly strong advances were registered in West Germany, Austria, France, the Netherlands, Sweden and Turkey.[3] There were significant gains in practically all areas although the agricultural items were slower in coming back up to pre-war levels.

In the area of investment, the main thrust of the dollar aid was in "productive" investments with priority given to power and transportation and key industrial facilities. The intent was to build up those segments of a nation's economy which were most crucial for early expansion in production. The E.C.A. was heeding the advice of its staff economists when this decision was made. Stated more formally, the E.C.A. made use of the multiplier process: ". . . the initial increase in expenditure will generate a series of spendings and respendings, which, if carried far enough, will raise income by some multiple of the original increment."[4] Needless to say, there would have been a multiplier effect almost regardless of how

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[1]Many of the data were difficult to compare because some were presented on a fiscal year basis, others on a calendar year basis and yet others as of a certain date.

[2]Organization for European Economic Cooperation, Basic Statistics of Food and Agriculture (Paris: O.E.E.C., 1954), p. 9.

[3]*Ibid*., p. 9.

[4]Wallace C. Peterson, Income, Employment and Economic Growth, (New York: W. W. Norton and Company, 1967), p. 153.

the aid money would have been spent; however, by concentrating investment in key industries, the magnitude of the multiplier was amplified and the cumulative effects upon income levels was many times more than the amount actually spent. Although fiscal year 1949 assistance of $5.517 billion represented only about 4 percent of western Europe's gross national product,[1] by virtue of the spending-respending effect of the multiplier, the end result was conservatively three times that amount. To keep the multiplier in perspective, however, it would have to be admitted that: ". . . the multiplier has a time dimension, since it would be quite impossible in reality for the whole series of spending and respending to occur simultaneously."[2] Notwithstanding its time element, it is accurate to say that the multiplier played a key role throughout the years of the Marshall Plan(and for some years to follow.) One final note must be made on the investment picture: approximately one half of all funds were of the counterpart variety already described. Price feels that the use of counterpart: ". . . provided a means for the exerting of some degree of American influence in the formulation of investment programs."[3]

While the progress made in the areas touched upon was significant and satisfactory, it must be admitted that the picture in the area of trade and tariffs was not as bright. The concept of protectionism was alive and well and few of the countries, understandably enough, were willing to walk into any of the negotiations with their country's economy in jeopardy. It was not to be until the following fiscal year that major strides were made in this area.

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[1]Howard S. Ellis, The Economics of Freedom (New York: Harper and Brothers, 1950), p. 38.

[2]Peterson, Income, Employment and Economic Growth, p. 153.

[3]Price, The Marshall Plan, p. 99.

The first full year had come and gone and, in the balance, it had been a good year for western Europe.

1949 - 1950 (FY'50)

This 12-month period, compared to the others, was perhaps the Marshall Plan at its best. Program emphasis had shifted from "relief" to "growth"; the mechanism of the E.C.A. was well established and functioning smoothly (if feverishly); real progress (vis-a-vis 1938) was made. And yet another reason must be cited: this was to be (because of circumstances beyond its control) its last year of operation untainted by the clouds of war and military aggression. The end of fiscal year 1950 had for some time been considered the half-way point; it was to become instead the point at which economic assistance became military assistance.

As had been the case the previous year, elaborate plans were drafted on the subject of goals to be achieved during the forthcoming year. In addition to goals of an "economic growth" nature, the O.E.E.C. stated that the year to come must be one of financial and monetary stability. Calendar year 1948 had been one marked by rather severe inflation in many of the western European countries (120 per cent in France in 18 months and 70 per cent in Greece in 24 months for example) and in fact between 1947 and 1956 the overall level of prices in western Europe rose by nearly 60 per cent--most of this rise occurring between 1947-1949.[1] The already-examined use of counterpart funds with their attendant control by the United States was to play a major role in helping to achieve the goals of financial and monetary stability.[2] By concentrating the use of counterpart funds on only

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[1]Organization for European Economic Cooperation, Ninth Report, p.133.

[2]Interview, Joseph L. Newman (A.I.D.) Washington, D.C., August 24, 1971.

those projects which would advance the economy of a given country along a broad and significant front, the E.C.A. was able to help shape the nature of many investment programs in western Europe.

In terms of production, agriculture finally surpassed the index figure of 100 (representing the 1938 levels) ending up at approximately 103; industrial production went to approximately 115 for the year as a whole.[1] Looking for a moment at the year-end levels rather than at the averages for the whole year, by the end of the second full year, industrial production had risen by more than one-fourth over post-war levels and agricultural production by just under one-fourth (some individual products, however, such as bread grains and dairy products were up by roughly one-third).[2] With a few notable exceptions (meat production and coal output) the pre-war levels had finally been topped by the mid-point in the program.

Analyzed by country, the greatest strides made during the two and a quarter years were by Germany (120 percent higher in June of 1950 than in April of 1948), Sweden and Denmark (69 percent), the United Kingdom (49 percent) and Norway (47 percent).

It might be argued that it is "easy" to bring production back up to where it once has been, and that the difficult part is to go beyond that threshold and realize gains in productivity. Notwithstanding the merits of that argument, it would nontheless have to be admitted that a great deal had been accomplished in a short time. By year end (June 30, 1950)--the midway point--the United States contribution had totalled just under $10 billion--to be exact $9.897 billions of which $1.330 billion represented

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[1] Organization for European Economic Cooperation, Basic Statistics, p. 9.

[2] Ibid., pp. 12, 28.

low interest loans.[1]

In the meantime in the arena of cooperation the E.C.A. pushed quite hard on the subject of eliminating or reducing import quotas to the ultimate end of balancing its dollar accounts and building an expanding economy in western Europe. A great deal of pressure both officially and "in the wings" was brought to bear by the United States on the western European countries on the subject of the desirability of economic cooperation.[2]

> The first solid blow was struck against import quotas when, on November 2, the O.E.E.C. requested each member country to eliminate, by December 15, quantitative restrictions on at least 50 percent of its imports on private account from other member countries. . . . Although some countries could not meet the liberalization ratios in full, the partial abolition of import quotas was one cause of a new upswing in intra-European trade.[3]

The shaky currency situation in many countries was approached head-on with the formation of the European Payments Union (E.P.U.) to serve the function of a clearing house for multilateral payments, thereby rendering unnecessary the machinery of bilateral accounting between any two countries. A second function of the E.P.U. was that of providing a temporary "cushion" for debtors thereby allowing short-time imbalances to rectify themselves. After considerable debate in the spring of 1950, the E.P.U. was formally launched on July 7, 1950.

Before leaving fiscal year 1950, one final demonstration of cooperation must be pointed out. Making this proposal particularly significant is the fact that it came completely from the Europeans themselves. On May

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[1]Agency for International Development, U.S. Economic Assistance Programs, p. 6.

[2]Interview, Joseph L. Newman (A.I.D.), Washington, D.C., August 24, 1971.

[3]Price, The Marshall Plan, pp. 123-124.

9, 1950, French Minister Robert Schuman proposed the formation of a joint (French and German) coal and steel production authority which would be open to other European countries. The United States was delighted by this development and gave it its complete support.[1]

In looking at the end of fiscal year 1950, the student cannot help but be awed by the tremendous strides which had been made and the striking progress which had become hard fact. Although the problems were far from gone, all things taken into consideration, the picture was a strongly optimistic one. It was completely out of the blue that the events of June 25, 1950--just five days before the celebrated "mid-point"--came to change the entire European Recovery Program so dramatically. In a move which caught the free countries of the world completely off guard, the Communists struck in Korea with both speed and strength and their ploy came dangerously close to succeeding.

1950 - 1951 (FY'51)

> Sunday, June 25. The next morning at the State Department the news was bad. A full scale attack centering around a tank column was driving toward Seoul and Kimpo airport. South Korean arms were clearly outclassed.[2]

It had taken but a few painful days to remind the United States and the nations of western Europe that war had not vanished from the face of the world--it had been only dormant, and now again was a harsh reality. "General Joseph L. Collins /Chief of Staff, U.S. Army/ pressed for and obtained the president's authority to have General MacArthur send a survey

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[1]Dean Acheson, Present at the Creation (New York: W. W. Norton and Company, 1969), p. 287.

[2]Ibid., p. 404.

team to Korea to make a first hand appraisal and report."[1] The report only served to confirm the shocking truth and President Truman immediately authorized our troops to go into combat. "We were then fully committed in Korea."[2]

In looking back, the United States and western Europe had been working so desperately hard on making the European Recovery Program a viable effort, that perhaps they had lost track of the hard facts of life. Our purpose had been so noble, the response so strong and the progress so impressive that we had been as a man with blinders: unaware of the world's pragmatic dimensions.

The impact on the Marshall Plan could have easily been foreseen. Whereas prior to the outbreak of Korean hostilities not one penny of United States assistance had been spent on defense-related items, after our commitment to assist the South Koreans was made, almost every dollar of the assistance funds was spent in building up the military power of the western European countries with the intent of detering any further Communist aggression.

The impact was felt not only in the area of program emphasis but in organization as well. "Responsibility for broad coordination of all foreign aid programs--military, economic, and technical--was given to an International Security Affairs Committee under the Secretary of State. . ."[3] This committee included representatives from the Departments of State, Defense, and Treasury, the E.C.A. and the Executive Office of the President.

In economic terms, it is fortunate that strong footholds towards

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[1]*Ibid.*, p. 406.

[2]*Ibid.*, p. 413.

[3]Price, *The Marshall Plan*, p. 136.

economic recovery had already been secured. Taking the year of 1950 as a whole and considering both industrial and agricultural production, the comparative figure of 114 could be assigned (relative to the index figure of 1938=100).[1] Perhaps even more significant is the fact that by the end of calendar year 1950, industrial yield (aggregated for all countries) was at a level almost 25 per cent above the 1938 level. Increases in agricultural production while somewhat less dramatic were nonetheless impressive.[2]

Yet another good sign was that industrial and agricultural gains had been accompanied by a strong rise in trade. By June 30, 1950, imports were at a level twice that of 1938 and perhaps even more significant, exports to the United States and Canada had approximately tripled over their 1938 levels.

The original agreement among O.E.E.C. members to free a certain percentage of their goods from import restrictions, was increased to 75 percent by February 1, 1951. Fiscal year 1951 also marked the first year of operation for the already-mentioned European Payments Union. The E.P.U. provided a mechanism of multilateral payments for the member countries and played a significant role in not only fostering intra-European trade but in assisting from a technical point of view in the "banking" aspects of such trade.

The Coal and Steel Community proposal of French Foreign Minister Schuman had been warmly and enthusiastically received by the United States and led to the ultimate union of six European countries (France, Germany,

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[1]Organization of European Economic Cooperation, Ninth Report, pp. 168, 170.

[2]It must be pointed out that inasmuch as population had grown by approximately 10 percent over 1938, the aggregate industrial and agricultural figure of 114 was just slightly higher than the 1938 statistic.

Belgium, the Netherlands, Luxembourg and Italy) and the agreement: ". . . that all tariffs, quantitative restrictions, discriminatory taxes or freight rates, and other barriers to a single market in coal and steel between the six countries should be abolished. . . ."[1]

All of the foregoing were the positive factors against which the impact of the Korean War would be weighed. It is of critical significance that the recovery program had made such fine strides because our preoccupation with Korea, which was made manifest in the change of the flow of resources which went to western Europe, might otherwise have left Europe in a highly vulnerable economic position.

This 12-month period: ". . . was particularly notable for tasks that distracted us from the main construction work of rebuilding. . . ."[2] In all objectivity, both sides of the picture must be painted. Serious problems still existed: coal which had been singled out from the beginning as a key commodity continued to play its role as the Achilles' Heel of economic recovery. Raw materials in general became increasingly scarce as the fiscal year wore on--primarily because of war demands. The countries of western Europe at the urging of the United States began to look to their overseas territories in terms of being potential sources of all matter of raw materials.

The problem of inflation, too, must be mentioned. The O.E.E.C. went so far as to say that: ". . . Inflationary pressures . . . threatened to interrupt the economic development of Europe, endangered the progress already achieved and rendered more difficult the accomplishment of the

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[1]Price, The Marshall Plan, p. 146.

[2]Acheson, Present at the Creation, p. 499.

defense effort from which they had sprung."[1]

The "liabilities" side of our balance sheet for the year in question would therfore reflect raw material shortages, inflation, and political uncertainty (brought about by the military action of June 25, 1950 with its attendant ramifications). On the "assets" side, would have to be mentioned an aggregate index of industrial and agricultural production of 114 and economic cooperation. In the balance as the fourth and final year of the Marshall Plan began, the atmosphere could best be described as "guardedly optimistic."

1951 - 1952 (FY'52)

By July 1st of 1951, the hot war was still blazing but the "cold war" was soon to become a reality. It finally dawned on the peoples of the free world that:

> The Soviet Union has been and is carrying on a completely new kind of war. . . . For the Kremlin, the military is only one of four fronts--each a battleground of implacable attack. These four fronts are the military, economic, political and psychological.[2]

Reflecting the unavoidable trend from "economic recovery" to "mutual security" was the renaming on November 1, 1951 of the Economic Cooperation Administration to the Mutual Security Agency.[3] The legislation placed the Director of the "new" Mutual Security Agency within the Executive Office

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[1]Organization for European Economic Cooperation, Economic Progress and Problems (Paris: O.E.E.C., 1951), p. 19.

[2]Paul G. Hoffman, Peace Can be Won (New York: Doubleday, 1951), pp. 16, 18.

[3]The title of Mutual Security Agency was to be relatively short-lived: on August 1, 1953 the administering agency for economic assistance became the Foreign Operations Administration and less than two years later on July 1, 1955 it became The International Cooperation Administration. This format lasted a little over six years until November 4, 1961 when the present Agency for International Development was "created."

of the President and the M.S.A. job became one of coordinating and supervising all foreign assistance programs.

Although the emphasis came to be placed on defense-related projects, the purely economic items did not completely vanish. The previous year (fiscal year 1951) had seen $2.622 billion in economic aid, not to mention a large dollar commitment to mutual security (in addition to the $2.622 billion). Fiscal year 1952 saw the economic portion in the last year of the Marshall Plan, dwindle to $1.985 billion dollars.

In trying to recapture the attitudes and sentiments among those who were aboard when the transition was made from E.C.A. to M.S.A., I spoke to Mr. Valerio Montanari who is still with A.I.D. He felt that two primary factors combined to lower enthusiasm at that juncture. The first was the fact that three-plus years had elapsed since those first hectic and mission-oriented days. In other words, as procedures became standardized and as the goals approached fulfillment, enthusiasm necessarily began to dwindle--the sheer passage of time whittled away at the esprit de corps which had been so obviously present at the onset. The second factor had to do with the change in thrust from economic to military objectives. Among the more altruistic members of the E.C.A., many who had been motivated by what Mr. Montanari calls an almost "missionary" spirit of dedication, did not feel comparably moved by defense-oriented and quasi-military programs. These two factors combined to set the stage for a new period in our foreign assistance efforts, a period which would never quite be able to recapture the zeal of the early years.[1]

From the European point of view, many of the efforts of the O.E.E.C. in the last year of the Marshall Plan were aimed at consolidating the

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[1]Interview, Mr. Valerio Montanari (A.I.D.), Washington, D.C., August 24, 1971.

progress made in the preceding three years. Having successfully "stretched," the Europeans now sought to "structure" their gains.[1]

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[1]The concept of "stretching and structuring" is borrowed from Professor S. McKee Rosen, The George Washington University, Washington, D.C.

CHAPTER V

ASSESSMENT

Introduction

> The enormity of the task before all of them /the western European countries/ after the war in Europe . . . only slowly revealed itself. As it did so, it began to appear as just a bit less formidable than that described in the first Chapter of Genesis. That was to create a world out of chaos; ours, to create half a world, a free half, out of the same material without blowing the whole to pieces in the process. The wonder of it is how much was done.[1]

In examining the Marshall Plan thus far, we have looked at many of its facets. By looking at the individual pieces we have not assessed the program as a whole, not placed it, perhaps, in its proper perspective. In this chapter, an attempt will be made to analyze specifically what was, in fact, accomplished by the Marshall Plan.

Multiple Motives

Before examining in some detail the substantive achievements of the Marshall Plan--the end results of the program--it would be well to spend a moment on the subject of the motives which underlay the European Recovery Program.

> To millions impoverished by World War II it meant food, tools, a chance to work, a source of new hope. Worried leaders in western Europe saw in it an assurance of help on a scale that might enable them to cope

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[1]Acheson, Present at the Creation, p. xvii.

> with their most urgent recovery problems. . . . To some Europeans--a growing number as the recovery program developed--another fundamental issue was involved. . . . The Marshall Plan emphasized European initiative in developing a collective appraisal of economic problems and collective proposals for dealing with them. This suggested--vaguely at first--a joint approach which could be the harbinger of a new solidarity within western Europe.[1]

It is hardly surprising that the Marshall Plan became so many things to so many people, because it had been born out of an amalgam of motives and objectives. On the one hand, and particularly in the first 15 months of its existence, the emergency relief nature of the program seemed to be its raison d'etre. One could summarize the underlying motives of this period as being social.

As time progressed and as the earlier social goals were for the most part achieved, the thrust of the program and the corresponding nature of the assistance shifted to the goal of economic growth. We were interested, it seems, in a partner on whose financial well-being our own in large measure depended: ". . . there can never be any stability or security in the world until [the countries of western Europe] are able to pay in commodities and services for what they need to import."[2] Since "charity" (usually characteristic of an emergency relief program) more often than not tends to increase dependency and despair, our goal became one of helping the participating countries to attain economic self-reliance and independence. In short, our motives became economic.

As economic cooperation began to take bold, new forms, the "harbinger of a new solidarity" came to the forefront. It must have been foremost in the minds of those in positions of authority in the E.C.A. and the

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[1]Price, The Marshall Plan, pp. 4-5.

[2]Dean Acheson, Requirements of Reconstruction, Department of State Bulletin XVI, No. 411 (Washington, D.C.: Government Printing Office, 1947), p. 991.

Department of State and in the Executive Office of the President, that if European economic cooperation could take permanent enough and significant enough forms, peace among the countries in question would almost necessarily become a by-product of such union.[1] Our motives, therefore, in fostering such a utopia were of a political nature.

After the events of June 25, 1950, had awakened the free world to the harsh reality of a not-so-cold war, our program emphasis shifted to mutual security and the nature of the assistance to defense-related items. By the fall of the following year even the name of the administrative agency had been transformed to reflect the change in thrust. With the establishment of the Mutual Security Agency came acceptance of the fact that, like it or not, we could not close our eyes to the military posture of the enemy. As absolutely essential as was the recovery of the European economy, any such recovery would nonetheless have to take place not only mindful of the military threat which lay just across the Iron Curtain, but indeed, willing to pay the price to maintain an adequate counterforce to such a threat. Our motive in changing the basic thrust of the recovery effort was military-oriented.

We have thus seen at one point or another social, economic, political and military motives all present in the Marshall Plan. But as if this were not complicated enough mixture, one must add the dimension of altruism. As concerns this particular subject, the perspective of time would seem to give weight to Secretary of State George C. Marshall's opinion that:

> As regards European recovery, the enlightened self-interest of the United States coincides with the best interest of Europe itself and of

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[1]Interview, Joseph L. Newman (A.I.D.), Washington, D.C., August 24, 1971.

> all those who desire to see conflicts of whatever nature resolved so that the world can devote its full attention and energy to the progressive improvement of the well-being of mankind.[1]

The following thoughts of then-Under Secretary of State Dean Acheson mirror Marshall's sentiments:

> The basic, underlying, never-varying tradition of this republic is insistence upon liberty of the individual, the worth of the individual, the ultimate test of truth by reference to the individual. . . . This country has always responded to peoples struggling to attain or maintain their freedom. We have done so because it is important to us that they shall succeed.[2]

There were those who read into the Marshall Plan a particularly high element of self-interest and of "selfishness." Then there were those who considered the Marshall Plan a noble social invention by which man rose above self-interest to share economic prosperity with his fellow man. While it is accurate to state that the latter sentiment enjoyed greater support than the former, still and all: "Foreign aid remains a noble aim and a dirty word."[3] It is generally conceded (even by those who consider "foreign aid" a dirty word) that the Marshall Plan was a broad and cooperative effort, unequalled in its magnitude and nobility of purpose.[4] The winning of the war was no small accomplishment to say the least, but it was felt by many that: "To the responsibilities and needs of that time /postwar/ the nation summoned an imaginative effort unique in history and

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[1]Marshall, European Revival and German and Austrian Peace Settlements, p.4.

[2]Dean Acheson, American Traditions in Today's Foreign Policy, Department of State Bulletin XVI, No. 416 (Washington, D.C.: Government Printing Office, 1947), pp. 1221, 1224.

[3]Acheson, Present at the Creation, p. 729.

[4]I have paraphrased here the rhetoric used by John F. Kennedy to describe the Alliance for Progress on March 13, 1961--the day he gave that program its birth.

even greater than that made in the preceding period of fighting."[1]

That this "imaginative and unique effort" should have been fueled by varying motives in no way detracted from the fact that it was tremendously successful. Suffice it to say that the humanistic and altruistic aspects of the Marshall Plan were noble indeed; the economic and financial facets were more pragmatic; the political "enlightened self-interest factor was necessary; and the military element exigent.

Aggregate Accomplishments

We are now at the juncture where it is logical to study the more tangible accomplishments to determine the degree to which the Marshall Plan contributed to the economic recovery of western Europe. First, the accomplishments in production (industrial and agricultural) will be examined, after which the subject of European economic cooperation and integration will be treated.

> In 1947, the industrial output of western Europe, with seventeen million more people than before the war, was 15 to 20 percent less than in 1938, agricultural production 20 to 25 percent less. Trade was at a low ebb, dollar reserves had dwindled to the danger point, living standards in many countries were precarious, and the situation was deteriorating.[2]

Against this picture of gloom can be analyzed the statistics to be found on the following page. By the end of the Marshall Plan period (June 30, 1952) steel production was at an index[3] of 133 versus 81 (in early 1948 at the onset of the European Recovery Program); merchant shipbuilding was at 136 versus 75; cement production was at 157 versus 73; motor vehicles

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[1]Acheson, Present at the Creation, p. 725.

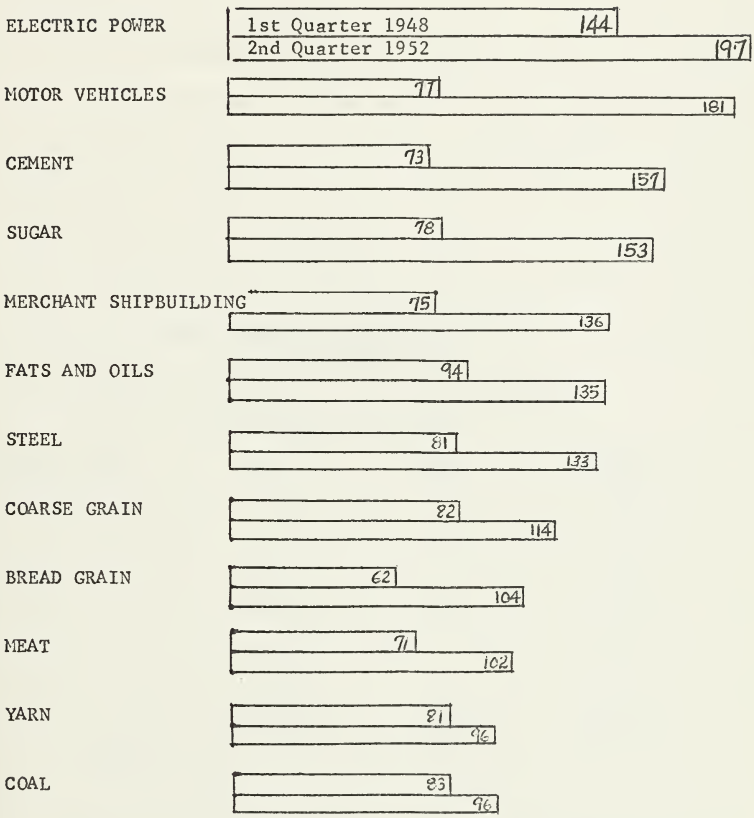
[2]Price, The Marshall Plan, p. 223.

[3]Aggregate industrial and agricultural production statistics for the participating countries in 1938 was set equal to 100.

TABLE 2

PRODUCTION OF SELECTED INDUSTRIAL
AND AGRICULTURAL COMMODITIES
AS OF JUNE 30, 1952

(Index: 1938=100)



Source: Organization for European Economic Cooperation, Ninth Report of the O.E.E.C. (Paris: O.E.E.C., 1958) pp. 169-170.

were at 181 versus 77; and even such slow to recover commodities as beef production had surfaced at 102 versus 71. Only coal remained at just under the pre-war levels of production at 96 versus a post-war 83.[1] Overall, industrial production soared over 40 percent (from 94 to 134) and agricultural production climbed some 35 percent (from 83 to 112). In short, the record speaks for itself: tremendous strides were made in a short period and the role of the Marshall Plan was a decisive one in this recovery.

In terms of the total dollar assistance which was committed during the 51-month period, the data (in millions of dollars) may be summarized as follows:

TABLE 3

TOTAL DOLLAR ASSISTANCE COMMITTED TO THE MARSHALL PLAN

(net obligations and loan authorizations--in millions of dollars)

FISCAL YEAR	TOTAL	LOANS	GRANTS
1948 (April-June)	766	2	764
1949	5,517	1,165	4,352
1950	3,614	163	3,451
1951	2,622	45	2,577
1952	1,985	201	1,784
TOTALS	$14,504	$1,567	$12,928

Source: Agency for International Development; U.S. Economic Assistance Programs, p. 6.

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[1]Coal was not to break through the 100 barrier until 1953.

While industrial production increased during the period of the Marshall Plan to a significant index figure of 134, the fact is that the potential for higher output was even greater. In 1951, the American worker was producing between two and five times as much per day as his European counterpart.[1] The setting was ripe for a technical assistance program. Mr. Paul G. Hoffman describes how the seeds for such a program were first sewn as a result of his conversation with Sir Stafford Cripps, the Chancellor of the Exchequer:

> "If we are to raise the standard of living in Britain," he /Cripps/ said, "we must have greater productivity." My heart quickened; this was the kind of talk I wanted to hear from a European. Then he continued. "Great Britain has much to learn about that from the United States and" --he paused-- "I think we have a few manufacturing secrets we've been concealing for a generation or so that you might like to learn. Why don't we interchange this information?" Naturally, I jumped at the idea. "Let's set up a system of transatlantic visits," I replied. "We can take British management and labor on tours of American factories and send Americans to Britain for a look at your shops." Sir Stafford made the deal right there.[2]

This was truly significant because a straight infusion of fuel, machines or materials could increase production, but only a sharing of industrial (and agricultural) secrets of simplification, standardization and specialization could bring about gains in productivity. That our assistance program should encompass such a sharing of "trade secrets" speaks well of its nobility of purpose. The Marshall Plan went on to provide management training which was both production-oriented and human-behavior-oriented. The best available records indicate that a total of 8,339 Europeans came to the United States to participate in some form of such training during the Marshall Plan years.[3]

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[1]Price, The Marshall Plan, p. 328.

[2]Hoffman, Peace Can be Won, pp. 101-102.

[3]Agency for International Development, Operations Report (Washington, D.C.: A.I.D., 1971), p. 66.

The point to be made is this: the United States, through the Marshall Plan not only helped to increase industrial production to a point 34 percent above pre-war levels[1] but of equal importance, laid the groundwork for increased productivity. The approach was that of a two-barrel shotgun: productivity as well as production; efficiency as well as effectiveness. The countries, it should be pointed out, were particularly ripe for the implementation of concepts of productivity. The war had served to "wipe the slate clean" and had cleared the air (for the most part) of the old way of doing things. Out of the rubble had risen the phoenix of new ideas and fresh concepts.

Key Country Analysis

Before moving on the subject of European economic cooperation and integration, the strides made in several of the countries should be analyzed. Only the major recipients of Marshall Plan resources will be examined, because it was these handful of countries which bore the brunt of the war's punishment and were most in need of economic assistance.

United Kingdom

At the top of the list was Great Britain. Although never faced with the horror of a land war on her own soil, the United Kingdom had nonetheless suffered heavy industrial damage by bombing. The country had also come out of the war with severe losses in foreign assets and reserves.

> Reconstruction was tackled with characteristic determination. . . . The British accepted an austerity regime which curtailed consumption of many items. Of the increase in real resources which became available from 1948 to 1950, only about one-quarter was allowed to go into

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[1]The increase in production represented a 34 percent rise above pre-war levels and approximately a 45 percent increase over 1947-1948 levels.

> consumption; half went into exports, and the remaining quarter was devoted to capital formation.[1]

The strong emphasis on capital formation made the Marshall Plan an investment program in the United Kingdom.

The following quotation defines the range and depth of our assistance effort in Great Britain:

> These supplies /received under the Marshall Plan/ have provided a general support to the whole U.K. economy, and without them it would have impossible to achieve the steady expansion of industrial production which took place . . . or to sustain so large a programme of capital investment. . . . There is not a single industry or district in the country which has not benefited in some way from American aid.[2]

A total of $3.189 billion went to the United Kingdom of which approximately 12 percent ($384.8 million) was in the form of low-interest loans.[3] A.I.D. reports reveal that $109 million of the $384.8 million has been repayed and $106 million in interest has been collected.[4] Only five of the western European countries have repaid in full the total amounts loaned to them under the Marshall Plan: France, Germany, Italy, Sweden, and the Netherlands.[5] For the entire area a total of approximately two-thirds of the principal has been repaid.

In addition to its traditional ties of a bilateral nature with the United States, Great Britain had familial ties with the nations of the

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[1]Price, The Marshall Plan, p. 283.

[2]Great Britain, Secretary of State for Foreign Affairs and the Chancellor of the Exchequer, Economic Survey for 1950, Command Paper #7915 in a series of reports to the Parliament, p. 9.

[3]Agency for International Development, U.S. Overseas Loans and Grants July 1, 1945-June 30,1970 Special Report Proposed for the House Foreign Affairs Committee (Washington, D.C.: A.I.D. 1971), p. 159.

[4]Agency for International Development, Operations Report, p. 21

[5]Ibid., p. 21.

Commonwealth, the result being that its participation and cooperation in continental western European affairs were often accused of being less than wholehearted. In rebuttal, however, it must be stressed that British leadership in the establishment of the O.E.E.C. was both strong and inspiring.

In balance, Great Britain made great strides forward as evidenced by the fact that it stopped receiving Marshall Plan assistance on December 31, 1950--a full 18 months prior to the official end of the program.

France

The second largest recipient of Marshall Plan resources was France. France received a total of $2.714 billion of which $225.6 million (approximately 8 percent) was in the form of low-interest loans.[1] As already pointed out, France repaid the full amount of the loan including $51.2 million in interest.[2]

Several factors played a major role in France's post-war situation. On the positive side, a large investment plan, the Monnet Plan, was drafted and implemented before the Marshall Plan got off the ground. Therefore, France was already heading, albeit slowly, in the right direction. On the negative side must be mentioned the element of France's colonial holdings: the unrest in Tunisia and Morocco as well as the war in Indochina was costing France a high price in manpower and resources. A second negative factor was that of Communist efforts to disrupt the economy and set worker against management. A third negative factor was serious inflation. All of these elements, some positive and some negative, made the picture a

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[1]Agency for International Development, U.S. Overseas Loans and Grants, p. 145.

[2]Agency for International Development, Operations Report, p. 21.

particularly complex one in France; however:

> With American aid, an upsurge in basic production, and a determined response to the /financial instability/ emergency by fiscal authorities, remarkable progress was made. In spite of many difficulties, pre-war living standards were regained and production levels surpassed. But France did not achieve economic viability or financial equilibrium during the Marshall Plan period.[1]

In short, France still had a very long way to go. Unlike the United Kingdom which had stopped receiving aid 18 months before the end of the program, France could have used an extra year of economic assistance beyond the 51 months of the Marshall Plan to enable it to attain true viability.

The United Kingdom and France together absorbed some 45 percent of all the resources committed to the Marshall Plan. By adding to this short list the countries of Germany (not originally in the total of the sixteen participating countries), Italy and the Netherlands we see that these five countries garnished close to 75 percent of Marshall Aid dollars.[2] The other twelve countries shared the remaining one-fourth of the money.

Italy

Third on the list of those countries which recieved the most resources from the Marshall Plan is Italy, which received $1.509 billion of which only $95.6 million (some 6 percent) represented loans[3] (which were fully repaid including $21.1 million in interest).[4] The key problem in Italy (if indeed one single problem can ever be isolated and given that

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[1]Price, The Marshall Plan, p. 282.

[2]Agency for International Development, U.S. Overseas Loans and Grants, pp. 137-161.

[3]Ibid., p. 151.

[4]Agency for International Development, Operations Report, p. 21.

label) was that of galloping inflation. Here the Marshall Plan was able to exert a strong positive influence. Price quotes Mr. Conato Menichella, governor of the Bank of Italy, in an interview as saying:

> Stabilization was made possible by interim aid. The Communists and associated parties were strong. Interim aid and the prospects of the Marshall Plan made it possible to maintain stability in prices and, therefore, confidence in the lira. These conditions helped to produce the heaviest defeat of the Communists after the war.[1]

Germany

Fourth on the list of countries to receive the most aid from the European Recovery Program is West Germany. West Germany, or more formally the Federal Republic of Germany, received $1.391 billion of which a little more than 15 percent ($216.9 million) was in loans.[2] Germany, like France and Italy already cited, repaid its entire loan amount including $77.6 million in interest.[3] That Germany emerged from the war completely devastated is hard fact. Further aggravating the situation was the dropping of the Iron Curtain, which in addition to causing psychological and sociological problems, resulted in a cutting off from western Germany of large areas of sources for food and raw materials. Yet another element was the fact that some ten million refugees from the east flooded into the country, making already limited food and employment that much more scarce.

If one single item can be singled out as marking the watershed from emergency relief to a true recovery and growth effort in Germany, it would have to be the currency reform of June 20, 1948. The reform, which

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[1]Price, The Marshall Plan, p. 275.

[2]Agency for International Development, U.S. Overseas Loans and Grants, p. 146.

[3]Agency for International Development, Operations Report, p. 21.

was implemented by the U.S. military government, helped to restore stability, fostered growth in production and in general paved the way for the workings of the Marshall Plan. During the Marshall Plan years Germany greatly reduced its dollar deficit, strengthened its trading position and made phenomenal strides in production output over the post-war level. The notion that in aiding Germany we were "helping the enemy" was a sentiment which, although present in some circles, certainly never gained widespread support among our citizenry, in the press, nor certainly within the E.C.A.[1]

The Netherlands

The Netherlands received $982.1 million of which 15 percent ($149.5 million) represented loans.[2] The Netherlands joined France, Italy and Germany in paying back its loan including $46.5 in interest.[3] Of the "big five" recipients only Great Britain, to this day, has yet to pay back the principal of its loan. Price feels that: "The Dutch were among the first to see the need for greater unity in Europe after the war and the significance of Germany in any new western European system."[4] This philosophy was to permeate the entire spirit with which the Marshall Plan was received and certainly made possible the tremendous strides forward which the Dutch realized. Levels of production soared, full employment came to be a matter of national pride and the level of investment in relation to the Dutch GNP rose to become one of the highest in Europe.

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[1]Interview, Mr. Valerio Montanari (A.I.D.), Washington, D.C., August 24, 1971.

[2]Agency for International Development, U.S. Overseas Loans and Grants, p. 152.

[3]Agency for International Development, Operations Report, p. 21.

[4]Price, The Marshall Plan, p. 262.

The five countries just cited (Great Britain, France, Italy, Germany and the Netherlands) accounted for approximately 75 percent of all assistance rendered under the Marshall Plan and thereby constitutes a handy cutting-off point. To complete the picture in summary form, a listing of all countries and the amount (grants plus loans) received, follows:[1]

Country	Amount
United Kingdom	$3,189
France	2,714
Italy	1,509
Germany	1,391
The Netherlands	982
Greece	707
Austria	678
Belgium and Luxembourg	559
Denmark	273
Norway	255
Turkey	225
Ireland	148
Sweden	107
Portugal	51
Iceland	29
Switzerland	0
Regional	407
	$13,224 millions[2]

European Cooperation

It is now time to look at a highly significant subject: that of the relation between the Marshall Plan and European economic cooperation and integration.

> Sixteen European countries came to Paris and then drew up--which had never been attempted before, let alone done--an amalgamated balance of payments accounts of their trade with one another, with the American

[1] Agency for International Development, U.S.Overseas Loans and Grants, pp. 14, 26, 137-161.

[2] This amount does not agree with the figure of $14.5 billion cited earlier in this chapter because included in the larger amount are other assistance funds granted during the Marshall Plan period to such non-area countries as China, India, Israel, etc.

continent, and with the rest of the world. This statement made clear to the world, what each country had hitherto only known in detail about its own position. . . .[1]

The strides taken in Paris in just a matter of weeks and months had surpassed centuries of similar attempts. The cornerstone was laid when the: "Member countries formally . . . bound themselves to cooperate closely in their economic relations with one another."[2] It was as if, after a long sleep, the nations in question had finally awakened to the fact their economic systems were inter-related and that the prosperity of each depended in large measure on the prosperity of all of them.

In a book written in the early days of the Marshall Plan, the French writer Henry Peyret enjoined Europe to grasp the marvelous opportunity for cooperation provided by the Marshall Plan: "Le plan Marshall propose à l'Europe créer un espace économique plus large dans un climat de liberté afin de franchir une étape nouvelle do progres. . . .[3] To reject the opportunity was, according to Peyret, to run the risk of falling into the quagmire of anarchy and impotence.

The role of cooperation was quickly given its acid test when the United States government, through the E.C.A., told the O.E.E.C. to decide for itself how the resources for the first full year were to be divided. It finally dawned on the countries in question that cooperation was in their own best interest.

The degree of cooperation which was achieved was so striking that Priced concluded that: "From a long-range viewpoint, what was accomplished

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[1]A.D. Marris, Prospects for Closer European Economic Integration (London: Royal Institute of International Affairs, 1948), p. 8.

[2]Organization for European Economic Cooperation, European Economic Cooperation (Paris: O.E.E.C., 1948), p.7.

[3]Henry Peyret, Le Plan Marshall; Peut-il Sauver l'Europe? (Paris: Société d'Editions Francaises et Internationales, 1948), p. 222.

through the Marshall Plan was not so much the final solution of transient problems, as a series of national and international efforts . . . toward the solution of continuing problems."[1]

The shape which the cooperation and integration took during the 51-months of the Marshall Plan was a number of economic vehicles the most significant of which are listed below:

April 16, 1948	-	Establishment of the Organization for European Economic Cooperation (O.E.E.C.)
September 19, 1950	-	Signature of the Agreement establishing the European Payments Union (E.P.U.)
April 18, 1951	-	Treaty signed by Belgium, France, Germany, Italy, Luxembourg, and the Netherlands establishing the European Coal and Steel Community.
March 24, 1952	-	European Production Agency created

Perhaps the most significant of the economic arrangements to have crystalized subsequent to June 30, 1952, is the European Economic Community (the Common Market) which was set into motion by a treaty signed on March 25, 1957.

Progress toward cooperation and integration was also made in the areas of military and political activity. Signal among the agreements must surely be mentioned the establishment of the North Atlantic Treaty Organization in 1949 and the creation of the Council of Europe in that same year. It is well beyond the scope of this thesis to dwell on either; they do, however, represent tangible evidence of the spirit of cooperation which was created in post-war western Europe. The O.E.E.C. had been the "Grandaddy" of them all in those post-war years:

> The O.E.E.C. stood out as the first organization through which the disintegration of western Europe into autarkic islands had been checked and a reverse trend established. During the transition both immediate

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[1]Price, <u>The Marshall Plan</u>, pp. 223-224.

> economic necessity and temporary American aid were important contributing factors. With advancing recovery these factors receded in importance. That the trend did not then collapse seems to have been due chiefly to the successful demonstration given by the O.E.E.C. and other emergent European institutions that positive benefits of distinct value to all members could be achieved by closer economic cooperation.[1]

Cooperation had in fact taken forms which would have been thought impossible a few short years before.

Overview

We have seen that industrial production climbed to an index figure of 134 from a 1948 low of approximately 94.[2] Agricultural production during the Marshall Plan period climbed to an index figure of 112 from its post-war low of 83--a jump of some 35 percent.

At the same time that production was climbing 45 percent in industrial items and 35 percent in agricultural commodities, increases in productivity were begun, paving the way for true economic viability.

The seeds of cooperation and integration had not only been planted but had given their first fruits. All tangible evidence pointed to the fact that closer cooperation would become the *modus operandi* of the future.

In short, the strides made in practically all of the participating countries during the period of the Marshall Plan exceeded the most optimistic estimates made at the onset.

The summary and conclusion will attempt to tie together "assistance and recovery" into a "cause and effect" relationship.

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[1] *Ibid.*, p. 356.

[2] Production data for 1938 have been assigned an index figure of 100.

CHAPTER VI

SUMMARY AND CONCLUSION

Introduction

To briefly review the situation as it was in the early days of 1948, Paul Hoffman, first Administrator of the Economic Cooperation Administration, reminds us that:

> The year 1948 was a fateful one for western Europe, menaced by Kremlin conspiracies. No less an authority than British Foreign Secretary Ernest Bevin has said that western Europe was on the verge of collapse. And some well-informed correspondents were predicting throughout the spring of that year that within a matter of months--possibly weeks--western Europe would be dominated by Soviet Russia. There was ample ground for this pessimism. . . . Broken factories were operating fitfully and often slowed to a halt for lack of raw materials and repair parts for equipment. Farmers raised little more than enough to feed themselves. The transport system was in too sad a state of disrepair to carry even the slight food surpluses to undernourished city dwellers. . . . To compound all these troubles, western Europe found itself host to millions of refugees and displaced persons who had fled the Kremlin's terror in eastern Europe.[1]

In Extremis

There is, among the nautical terminology used at sea today a term called _in extremis_, meaning literally "at the point of death." On the open sea _in extremis_ describes a set of circumstances in which, no matter what action is taken, a collision will inexorably result. It represents the

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[1]Hoffman, _Peace Can Be Won_, pp. 88-89.

"too late to do anything" situation. All of the evidence both written and in interviews that I came across in researching my thesis points to the fact that western Europe was about to unintentionally place itself in extremis. The foregoing quote from Mr. Hoffman's book talks in terms of "a matter of months--possibly weeks" before western Europe might find itself at the end of the line.

The previously drawn analogy of the seriously injured body steadily lapsing into death bears repeating. It will be recalled that Secretary of State George C. Marshall, in reporting to the American people upon his return from the Moscow Meeting of the Council of Foreign Ministers had warned that: "The patient is sinking while the doctors deliberate."[1] A similar analogy was later used by the member countries of the O.E.E.C. when, in their Third Report, they stated that: "Marshall Aid was the blood transfusion which sustained the weakening European economies and gave them the strength to work their own recovery."[2]

All available data generally paints the same picture: the almost in extremis situation, the patient about to go under.

Primary Question

While written documents point to an extremely grave situation, they never come right out and ask (let alone definitively answer): would western Europe have "gone under" if the United States had not, when it did, implemented the Marshall Plan? Typical of the treatment given this

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[1]Marshall, Moscow address, p. 17.

[2]Organization for European Economic Cooperation, Third Report, Economic Progress and Problems, p. 10.

particular subject is the following "qualified" quotation from Price:

> Did the European Recovery Program . . . actually stave off a collapse of western and southern Europe? Were economic and political conditions so threatening that without such a program the continent would have been exposed, country by country, to the fate of the satellites to the east? The answer to these questions, by many competent observers, is yes.[1]

And a few pages later: "It /the Marshall Plan/ probably forestalled a collapse of western Europe and the Mediterranean area and their unwilling incorporation into the orbit of world communism."[2] (Italics mine).

The gentlemen interviewed, however, were quite eager to discuss this particular point, full well realizing that to give an unqualified "yes" (or "no") would be to create (or deny) a cause and effect relationship between assistance and recovery. The conclusions reached were significant to say the least because to a man the gentlemen interviewed felt that without a doubt, there would have been economic and political chaos in western Europe if the Marshall Plan had not been implemented. Bluntly put, western Europe would have followed in the footsteps of eastern Europe ending up behind the Iron Curtain. In all fairness, however, it must be admitted that while some of the gentlemen interviewed felt that all of western Europe would have fallen, others felt that some countries might have escaped the impending doom. More specifically, Great Britain was mentioned most often as being that country which might mot have fallen prey to Communist domination. Italy, France, and Germany, on the other hand, were the most frequently mentioned countries which interviewees felt would have been among the "first to go." It is of the utmost significance that men who were intimately familiar with the situation in those post-war years should

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[1]Price, The Marshall Plan, p. 399.

[2]Ibid., p. 404.

so unanimously feel that the Marshall Plan had played such a decisive and central role.

To the more tangible resources of dollars and materials would have to be added yet another contribution of the Marshall Plan. By sharing its industrial and agricultural expertise with the western Europeans, the United States demonstrated rather dramatically its willingness to give not only its dollars but its knowledge. As a result of the application of the expertise, there resulted increased productivity and while the concept of productivity was certainly not new, it nonetheless drove home the point very vividly that in it lay the key to a higher standard of living. By focusing on greater output per man day it was not long before the concepts of wider markets, greater diversification and tighter competition had taken root. These in turn became the adrenalin which spurred the patient to recovery.

One is forced to conclude that the Marshall Plan took the shape of not only dollars, materials and technical assistance but, of even greater importance, the Marshall Plan embodied the spirit of partnership; it incorporated fellowship as well as assistance. The idea that we would see this problem through together had been paramount from the very onset when Secretary Marshall in his now-famous Harvard address on June 5, 1947, had stated: "The program should be a joint one."[1] In point of fact, the concept of two continents jointly sharing this awesome burden was a very powerful and moving one, prompting Price to note that:

> The impact of the Marshall Plan, even before the first aid shipment started, was notable. A wave of new hope swept across western Europe. Despite veiled threats and a barrage of Communist propaganda against

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[1]Marshall, European Initiative Essential to Economic Recovery, p. 5.

the United States and the recovery program, the cooperating nations attacked with renewed vigor the task of recovery.[1]

Secretary of State Dean Acheson, in retrospect, was able to say about the Marshall Plan:

> The balance sheet of our relations with "the vast external realm" for this time /1945-1953/ is well in the black. Our efforts for the most part left conditions better than we found them. This was plainly true in western Europe. At the beginning of the period that half continent, shattered by its years of civil war, was disintegrating politically, economically, socially and psychologically. . . . Eight years later the economic life of western Europe had largely recovered its pre-war vigor and was moving on to new heights of productivity undreamed of before. Brilliant leaders had inspired their peoples with a new will and new vision of a political, social and economic integration so that the economic help and military security we offered was used with full invigorating effect.[2]

Put more quantitatively by the participating nations themselves:

> Achievements substantially exceeded the targets in almost all fields, total industrial production rising 65 percent above the 1947 levels against the 40 percent hoped for. With steel production well above expectations, production of machinery expanded roughly twice as much as had been foreseen, opening the way for new increases of ouput. The success achieved in expanding electricity capacity enabled the greatly enhanced requirements to be met. Coal production, however, did not grow as much as had been expected. Agriculture exceeded the target of a 38 percent increase on the 1947 level, permitting an increase in consumption at the same time as reduced imports.[3]

The advances made were striking. The Marshall Plan had made possible what Dean Acheson calls: ". . . the dawn of a revivification unparalleled in modern history."[4] Paul Hoffman was moved to say: "This comeback has been called 'the most courageous in history', and I support that verdict."[5]

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[1]Price, The Marshall Plan, p. 396.

[2]Acheson, Present at the Creation, p. 728.

[3]Organization for European Cooperation, Ninth Report, p. 30.

[4]Acheson, Present at the Creation, p. 257.

[5]Hoffman, Peace Can Be Won, p. 90.

In an attempt at looking objectively at both sides of the picture, criticisms of the Marshall Plan were sought. These proved to be extremely difficult to find. Even among those persons who considered foreign aid "a noble aim and a dirty word,"[1] there were apparently few willing to cast the first stone against the Marshall Plan.[2] In the balance, one would be forced to conclude that while a small percentage of the population may have felt that the Marshall Plan was a "give away" program of the most generous variety, the overwhelming majority believed that it was both realistic in scope and necessary in purpose. This does not mean, however, that the mechanics of the assistance effort did not come under fire. Indeed, Paul Hoffman himself, for example, felt that the legislation requiring that at least 50 percent of all U.S.-financed goods destined for western Europe be transported in U.S. "bottoms" should be repealed immediately.[3]

Conclusion

In conclusion, it can be unequivocally said of the Marshall Plan that it:

> . . . afforded without stint the critical margin of resources and energy needed to make possible an amazingly rapid recuperation of the European economy. . . . It demonstrated, in unprecedented fashion, the possibility of organizing and carrying out vast international endeavors--not for destruction, but for construction and peace. Belying in performance the charge of imperialism, it gave the United States a new stature in the world as a leader to be trusted. And it set in train a succession of promising developments.[4]

After examining the available evidence, I feel that the Marshall

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[1]Acheson, Present at the Creation, p. 729.

[2]Interview, Valerio Montanari (A.I.D.) Washington, D.C., August 24, 1971.

[3]Hoffman, Peace Can Be Won, p. 59.

[4]Price, The Marshall Plan, p. 404.

Plan did prevent the collapse of western Europe. The Marshall Plan was instrumental in renewing economic vitality, it planted the seed of productivity and nurtured it through its formative years, and it fostered vehicles of economic cooperation and integration which live and prosper to this day. But perhaps even greater than these factors, significant as they admittedly are, was the paramount fact that the Marshall Plan brought hope and confidence to a shattered continent. In a letter to the author Mr. Hoffman stated:

> . . . the Europeans would have had a very tough job saving Europe if it had not been for the help extended by the Marshall Plan. They were in desperate need of materials and machines which we supplied, but the ingredient most needed was hope. Overlooked in most of the history of the Marshall Plan was the fact that a despairing people became a hopeful people as a result of the help extended by the Marshall Plan.[1]

Senator Vandenberg captured this underlying and all-important sentiment of reassurance so well when he said:

> We are enjoined together in a crusade for enduring peace. We grip friendly hands across the sea. We have no enemies unless aggressors nominate themselves as such. Our common cause is human rights, fundamental liberties and a free world of free men.[2]

Secretary of State George C. Marshall, by any standards a giant among public servants, and truly the father of the program which bore his name, had foreseen and expressed in his Harvard address the key sentiment which underlay this noble effort: "Our policy is directed not against any country or doctrine, but against hunger, poverty, desperation and chaos."[3,4]

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[1]Paul G. Hoffman, letter to Daniel H. Laurent dated on September 1, 1971.

[2]Arthur H. Vandenberg, The Private Papers of Senator Vandenberg, (Boston: Houghton Mifflin, 1952), pp. xxi-xxii.

[3]George C. Marshall, address cited, p. 4.

[4]So central is this theme that I chose it as the subtitle for this thesis.

The United States of America, through the medium of the Marshall Plan, had played the decisive, if not the principal, role in the battle against these four scourges of mankind.

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